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Post-War Tax Imponderables

In opening the "Symposium on Post-War Taxation" held by the Associate Membership of the New School for Social Research in New York City on Jan. 30, A. Wilfred May, who presided, urged his audience not "to lose sight of the economic background behind suggested tax changes." He pointed out the "imponderables" facing the plans for tax reforms as indicated by the wide disparities in estimates of post-war Government expenditures and in the future levels of national income.



A. Wilfred May

"Everyone, from the time of Adam Smith down to Henry George," Mr. May began, "has agreed on certain desiderata of taxation, such as:

"Taxes should be levied in proportion to ability to pay . . .

"The manner of taxation should be convenient to the taxpayer . . .

"The collection cost should be kept at a minimum. . . .

"Taxes should not interfere with production . . .

"And post-this-war: Everyone, (Continued on page 647)

Index of regular Features on page 648.

The Recent International Civil Aviation Conference

By DONALD L. KEMMERER

Assistant Professor of Economics, University of Illinois

Dr. Kemmerer Reviews the Previous Aviation Conferences and the Conditions That Led Up to Recent International Conference in Chicago. Points Out That the "Closed Sky" Principle Has Become Antiquated Due to War-Time Growth of Aviation and That the "Five Freedoms" of the Air, Viz.: (1) Innocent Passage; (2) Technical Stops; (3) the Right to Traffic From the Home Country to Another; (4) Return Traffic, and (5) Intermediate Traffic Hauls, Are Comparable to the "Freedom of the Seas." Explains the Antagonistic British and American Views Regarding an International Quota System and Shows that Each Favors a Policy Opposed to Their Previous National Ideas. Contends That Inability to Arrive at a Compromise Will Lead to Bilateral Arrangements, and Bitter International Rivalries, But Believes Groundwork Is Laid for Another Conference.

World Aviation Conferences

The third of the world's historic international civil aviation conferences ended in Chicago on Dec. 7 after being in continuous session

37 days. The first of such conferences produced the document known as the Paris Air Convention of 1919 which recognized the principle that "every power has complete and exclusive sovereignty over the air space above its territory." It also established a permanent commission and drew up certain minimum technical requirements. The United States did not ratify this Convention. The second conference produced the Havana Convention of 1928 which we did ratify but which dealt with western hemi-

(Continued on page 636)



Donald L. Kemmerer

Secretary Morgenthau Answers Bankers' Report on Bretton Woods

At Press Conference, He Intimates That Amendments to Plans Would Destroy Them. Looks for Early Congressional Action. Says Too Few People Understand Proposals, and That Public Requires Further Elucidation, so Treasury Officials Will Continue Activities in Support of Plans. Holds Many Bankers Advocate Adoption of the Proposals.



Sec. Morgenthau

At a press and radio conference held in Washington on Feb. 5, Secretary of the Treasury Henry Morgenthau, Jr., expressed regret that the joint report of the Committee of three bankers associations relating to the international financial proposals by the Bretton Woods Conference was made public. He praised the wartime cooperation of the banks with the Treasury but "pointed out to them that if they made a statement along the lines criticising what was done at Bretton Woods, the net result would be that if their advice was listened to, it would simply kill it."

Present with Mr. Morgenthau at the conference were Harry D. White and Mr. Bell of the Treasury Department.

(Continued on page 644)

in favor of maintaining exchange control. This campaign is significant in that it is addressed to the masses and is based on emphatic assertion of controversial theses or even untruths. On the first page of the Daily Express, one could quite recently read an article with the title in letters one inch high: "1925 and All That—Only Far, Far Worse", and signed by Paul Einzig. This campaign (Continued on page 628)



Philip Cortney

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Arno H. Johnson, Director of Media and Research of the J. Walter Thompson Company, in addressing the Sales Executives Club of New York City on Feb. 6 expressed optimism regarding the prospects of maintaining a high level of employment in the post-war period and stated the belief, which he supported by the exhibition of elaborate charts, that we can have "an economy which will be capable of providing for the great mass of our population a standard of living fully double our pre-war level."



Arno H. Johnson

Mr. Johnson began by saying: "We must sell to consumers \$145 billion of goods and services annually in the post-war years if we are to provide employment for the 57 million persons who will want jobs"—that is more than double the pre-war peak of \$71 billion of consumer goods and services sold in 1929 or the \$66 billion sold in 1940. The task of raising the levels of consumption far enough and fast enough to catch up with the enormous increase in our proven ability and capacity to produce presents both an opportunity and a challenge to all in the field of marketing."

"The cautious way to open a discussion of post-war prospects," he continued, "would be to state that markets will depend largely on the kind of economy we will have—and the predictions of our (Continued on page 645)"

**NSTA Notes****BALTIMORE SECURITY TRADERS ASSOCIATION**

The Baltimore Security Traders Association renewed its Annual Mid-Winter get-together by holding a banquet at the Lord Baltimore Hotel on Jan. 26, 1945.

The affair was attended by approximately 200 persons, including Edward E. Parsons, William J. Mericka & Co., Inc., Cleveland, President of The National Security Traders Association, Inc.; Richard F. Abbe, Van Tuyl & Abbe, New York, President of the Security Traders Association of New York, Inc.; and Russell M. Dotts, Bioren & Co., Philadelphia, President of The Investment Traders Association of Philadelphia.

As usual, there were no speeches, and a brand of entertainment was presented that seemed to please the boys immensely. A general feeling of good fellowship and sociability was evident throughout the entire evening, and the prizes drawn for were just what the doctor ordered. The Committee in charge was given a vote of thanks for a job well done.

BOSTON SECURITIES TRADERS ASSOCIATION

Because of transportation shortage, the Boston Securities Traders Association has postponed its annual winter dinner which had been scheduled for Feb. 21.

Calendar of Club Events

Twin City Bond Traders Club—Annual Winter Meeting, Feb. 21.

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Nat'l Ass'n of Inv. Cos. Quarterly Bulletin

The National Association of Investment Companies, which represents 117 companies with combined assets of over \$1,500,000,000 has published the first issue of a new quarterly statistical bulletin covering closed-end investment company securities. In convenient form, the bulletin includes the more important statistics which are not easily obtained from any other single source.

The sole purpose of this quarterly bulletin is to provide as much information as is feasible within the limits of a publication of this type to aid the individual investor to make his own decisions about the various closed-end investment company securities which are best suited to his purpose.

Securities of closed-end investment companies are divided into separate categories in the bulletin as follows:

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Oscar Burnett & Co. Adds Otis Phillips to Staff

Greensboro, N. C.—Otis D. Phillips has joined the staff of Oscar Burnett and Company, 506 Southeastern Building. Mr. Phillips has recently been associated with McDaniel Lewis & Co. In the past he was with Merrill Lynch, Pierce, Fenner & Beane.

ing to Lucile Tomilson, Executive Assistant, National Association of Investment Companies, 61 Broadway, New York 6, N. Y.

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**Bowles Says Distributors Must
Share in Absorbing Higher Costs**

At Conference With Wholesalers and Retailers He Says Profits Have Risen or Have Been Maintained, But Promises Relief in Cases Where Ceiling Prices Are Below the Generally Fair and Equitable Level.

If consumers are to be protected from serious inflationary pressures facing the nation in 1945, it will be necessary for retailers and

wholesalers to absorb their share of cost increases wherever possible. Price Administrator Chester Bowles told representatives of wholesalers and retailers in Washington on January 23.

In a conference with a cross-section of representatives of wholesalers and retailers in the department store, dry goods, furniture and hardware fields today, Mr. Bowles and other Office of Price Administration officials discussed this problem and outlined some suggested methods of putting OPA's policy into operation.

The trade representatives were asked to suggest ways in which policies of "cost absorption" could be applied to wholesale and retail businesses, with special emphasis on the difficult problem of methods of measuring the amount of cost increases that distributive trades could absorb.

The Price Administrator pointed out that during the last two and a half years of price control, manufacturers producing civilian goods have absorbed many increases in wage rates and in materials prices without corresponding increases in the ceiling prices of their products.

This policy of "cost absorption" within reasonable limits was explained to Congress in detail last Spring, he said, and received its approval as the only means through which the threat of rising prices could be averted. The Emergency Court of Appeals has also upheld its validity.

"Manufacturers have absorbed these extra costs, and, with few exceptions, have still made far higher profits than they made before the war," Mr. Bowles said.

"In justice to consumers, on the one hand, and manufacturers on the other," he continued, "I believe we have no choice but to apply the same approved principle of cost absorption to the distributive trades as well as to manufacturers."

Although OPA has required distributors in some fields to absorb cost increases from time to time, it had not previously worked out

(Continued on page 635)



Chester Bowles

**Fed. Savs., Loan Ins.
Assets Up in 1944**

Resources of the Federal Savings and Loan Insurance Corporation increased by \$8,986,163 to a total of \$155,807,421 during 1944, William H. Husband, General Manager of the Corporation, announced on Feb. 3. Reserves and unallocated income of the Corporation reached \$53,269,983 on December 31, a gain of \$8,695,850 for the year, he reported. The advances from the Corporation added:

"Net income of the Corporation for 1944 amounted to \$7,578,833, as against \$7,151,852 in 1943."

Reviewing the decade of experience of the Corporation in protecting investors in savings and loan associations and contributing to the stabilization of the nation's home financing institutions, Mr. Husband said: "By law the Insurance Corporation is empowered to act to prevent default of an insured association or to restore an institution in default to normal operation. For this purpose the Corporation has made cash contributions to 28 associations since it was established in 1934."

Mr. Husband also said:

"Seven other associations have been placed in liquidation by supervisory authorities over the same period. Two of the receiverships have been completed, paying the Insurance Corporation liquidating dividends of 48% and 93%. In the five associations still in process of liquidation it is estimated that the Corporation will recover over nine-tenths of the amount disbursed to pay off the insured shareholders. No insured association has been placed in liquidation since 1941."

"The net disbursements of the Corporation for aid to institutions in difficulty and to pay off investors in liquidating associations amounted to an estimated \$5,900,000, from the inception of the Corporation up to the end of 1944."

"Insuring funds of some four million people in nearly 2,500 savings and loan associations against loss up to \$5,000 each, the Federal Savings and Loan Insurance Corporation stands as an ultimate bulwark for investments in thrift and home financing institutions. The first line of security, of course, is the established strength of the insured institutions themselves."

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**Government Controls and
Industry's Pricing Policies**

By HOWARD E. BLOOD*

President, Norge Division, Borg-Warner Corporation, Detroit

Industrialist, Though Admitting That Price Inflation Checks Are Needed in Reconversion Period, States That If OPA Takes Its Present Course, Manufacturers Will Be Forced to Absorb Unavoidably Increased Costs. Attacks the "Profit Pinching Policy" as Detrimental to Full Reemployment, and Cites the Case for a Restoration of Profit Margins. Argues That Distributors' Historic Margins Should Not Be Squeezed Down, and Expresses Opposition to the Use of Government Capital and Taxing Powers to Favor Special Types of Business in a Competitive Enterprise System.

Whenever a business man nowadays dares to raise his voice in protest against OPA's publicly announced profit squeezing intentions,

he is called an inflationist and a profiteer. And the highly skilled propaganda machine of OPA, together with its facilities for publicity by radio and the Press, in too many cases are causing business men to feel helpless and to stand mute.

Let's start out by again recognizing and acclaiming the great service rendered by OPA in holding the line against runaway price inflation. No other segment of our people is more keenly aware than business men of the dangers of inflation and of the need for holding the line.

Likewise, let us boldly state

*An address by Mr. Blood before the American Management Association Finance Conference, Hotel Biltmore, New York City, Feb. 1, 1945.



Howard E. Blood

that business men know that conversion period and post-war employment in manufacturing and distribution will be up to them, and they also know that they cannot provide that employment if their profit ratios are squeezed to the extent threatened by OPA.

It seems almost trite to say that as soon as this horrible war comes to a point where there are substantial cutbacks in war orders, we must have extensive and rapid reconversion in the important durable consumer goods industries in order to avoid serious unemployment. If we let nature take its course this reconversion would probably be rapid, but would be accompanied by a bad price inflation in scarce goods, caused by attempts to cope with taxes, higher costs and a scramble for higher wages and profits.

If we let OPA take its present course, manufacturers will be forced to absorb unavoidably increased costs or, at best, to recover their costs without profit; and in cases where any relief at all is given manufacturers in order to absorb their costs, distributors will be forced to absorb the increase out of their margins. And in discussions of increased costs

(Continued on page 634)

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A Favorable Rate Decision

Strength in utility issues recently has been attributed to several factors—the increasing popularity of “peace” stocks, the Supreme Court decision in the United Light & Power Case, and the Pennsylvania rate decision. The latter was an extremely favorable opinion of the Pennsylvania Public Utility Commission with respect to rates of Pennsylvania Power & Light, Power & Light. The Commission not merely found present rates to be reasonable, but went out of its way to discuss in considerable detail many problems with respect to utility valuation, taxation and earning power.

This was one of the few really favorable decisions which the utilities have obtained in recent years. The changed political situation in Pennsylvania may, of course, have had something to do with the present composition of the Commission and the liberality of the majority views. While the decision will have no immediate effect on utility earnings, in Pennsylvania or elsewhere, it serves as a backfire against the many anti-utility decisions and policies of recent years, which have had their principal source or inspiration in Washington.

The Commission, in considering the valuation of the property of Pennsylvania Power & Light, evidently considered that it had a mandate to follow the old-fashioned Smyth vs. Ames Supreme Court philosophy and hence studied reproduction cost, acquisition cost, original cost, going concern value, working capital and accrued depreciation, finally arriving at its own ideal of “fair value.” After allowance for depreciation (estimated at 15%) it reached the following conclusions (round figures): Reproduction cost based on spot prices, \$194,000,000, and adjusted to average prices, \$174,000,000; acquisition cost was discarded as inaccurate; original cost as submitted was \$164,000,000, and after adjustment for questionable items \$149,000,000. After taking into

account going-concern value (for which the company had claimed some \$24,000,000) and allowing \$7,000,000 for working capital, the Commission decided that fair value (as of Dec. 31, 1942) was approximately \$202,000,000. After a similar consideration of gas and steam properties, \$18,000,000 was added bringing total fair value to around \$220,000,000 (net after depreciation).

Surprisingly, this figure was well in excess of the amount now carried on the company's books (about \$197,000,000 at the end of 1942). While FPC findings regarding original cost have not yet been fully clarified, the Commission has proposed write-offs of approximately \$47,000,000 (with an additional \$5,000,000 taken out of depreciation account). A substantial amount would be written off currently and the balance amortized over a 15-year period. On this basis, the Commission's findings with respect to original cost (net) appear to be around \$150,000,000, including gas and steam properties. This is below the results obtained by the State Commission and some \$70,000,000 less than the rate base (fair value) which was found warranted by the Pennsylvania Commission.

The Commission was also liberal in its views on fair return. Six per cent was allowed on electric property, 6½% on gas and 6¾% on steam heating plant. Combining fair return and fair value for the three parts of the property (electric, gas, steam) the earnings “ceiling” (before interest and dividends) was fixed at \$13,337,650. The company's recent earnings have been about \$11,150,000, but the Commission estimated that, due to the burdensome effect of Federal taxes, the company is actually earning only about \$4,000,000.

This surprising figure was the result of a long analysis of the effects of Federal taxes. The Commission pointed out, with the aid of an arithmetic demonstration, that present Federal taxes penalize any utility company which has done a considerable amount of bond financing at low rates. It holds that the original theory of “fair return” was an overall per-

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The Supreme Court and the Power of Congress to Regulate Money

By RINEHART J. SWENSON*

Chairman, Department of Government, New York University

Holding the Federal Power to Regulate Money Is Exclusive, Professor Swenson Asserts That There Would Seem to Be No Constitutional Objection to the Monopolization of the Banking Field by the National Government by Bringing All Commercial Institutions Into the Federal Reserve System. Holds That Supreme Court's Decision Upholding the Invalidation of Gold Contracts as an Exercise of the Sovereign Power to Regulate the Value of Money Was Inescapable, and Maintains Congress Has Constitutional Power to Carry Out the Provision of Bretton Woods Proposals. Says There Is a Tendency to Confuse Power With Policy and to Reason That Where Power Exists, It Is Likely to Be Abused.

Federal Power Exclusive

The controlling reason for calling the Constitutional Convention of 1787 was to find relief from the competitive, confusing and destruc-



Dr. R. J. Swenson

proper for carrying into execution the foregoing powers.” That this grant of power was exclusive with Congress has been held consistently by the Supreme Court since the early case of *McCulloch v. Maryland*.¹

But the fathers did not leave the exclusiveness of the power to mere affirmative grant to the Congress; they imposed positive prohibitions upon the States when they declared that “no State shall . . . coin money; emit bills of credit; make anything but gold and silver a tender in payment of debts; pass any . . . law impairing the obligation of contracts.” These limitations do not deny to a State the authority to establish State banking corporations with power to issue bills payable to the bearer, in gold or silver, on demand; since such bills are not “bills of credit,” as they are not issued by a State, on the faith of a State, and designed to circulate as money.² However, Congress may drive these bills out of circulation as an incident to its power to provide a uniform currency system for the United States, or more specifically, to protect the currency which it has created, namely, the legal tender notes and the notes of the national banks.³

Further, a State may not by taxation or other means interfere with any agency or instrument created by Congress for the purpose of carrying out its money powers. So a State may not tax, without the consent of Congress, a bank⁴ created, or any of the securities⁵ issued by the United States.

The Commission also took exception to the assumption made in other regulatory quarters that the Federal excess profits tax (together with the 16% surtax) are wartime emergency taxes and “improper measures of future tax cost.” The Pennsylvania Commission felt that due to the necessity of servicing and repaying the war debt, a return to the 24% corporate tax will be unlikely for many years to come. Possibly the Commission had in mind the recent Michigan rate orders which diverted large year-end rebates of revenues to customers, on the theory that the excess profits taxes are an abnormal, emergency tax.

The decision is too lengthy to discuss fully in this review, but it constitutes a landmark in current discussion of utility problems.

1 4 Wheat. 316 (1819).
2 *Briscoe v. Bank of Kentucky*, 11 Pet. 257 (1837); reaffirmed in *Darrington v. Bank of Alabama*, 13 How. 12 (1851), where the State was not only the sole stockholder but had pledged its faith for the ultimate redemption of the notes. *Poindester v. Greenhow*, 114 U. S. 270 (1885). Interest coupons attached to State bonds, although promises to pay money backed by the credit of the State, and receivable for taxes, not bills of credit.
3 *Veazie Bank v. Fenno*, 8 Wall. 533 (1869).
4 *McCulloch v. Maryland*, 4 Wheat. 316 (1819); *Osborn v. United States Bank*, 9 Wheat. 738 (1824). For State authority to tax National Banks see *Revised Statutes*, sec. 5219 and *National Bank v. Anderson*, 269 U. S. 341 (1926).
5 *Weston v. Charleston*, 2 Pet. 449 (1828); *Bank of Commerce v. Commissioners*, 2 Black 470 (1862); *Bank Tax Case*, 2 Wall. 200 (1864); *United States stock; Bank v. Supervisors*, 7 Wall. 26 (1869); *United States notes issued under Acts of 1862, 1863*.

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Tomorrow's Markets Walter Whyte Says—

Increased margins doesn't feaze market. Present indications paradoxically point to advance and dullness at same time. New stocks recommended.

By WALTER WHYTE

The indications of coming strength discussed in last week's column were borne out in the action of the market during the past few days.

Oddly enough the Federal Reserve Board's raising of margin requirements from 40% to 50% had little effect on prices. If anything it seemed to stimulate some of them. Certainly last Saturday's activity had a great deal of pre-margin buying in it. One of the reasons the ruling didn't seem to make much difference was the fact that it didn't come as any surprise. Early in January intimations of such an increase were evident.

Actually, the change has had little practical effect on margins. For even if they went up 10% most of the buying is either for cash, or so close to cash, that to all intents and purposes, it's the same. Debits are comparatively small today. Back in 1929 when everybody and his boot-black was in the market debits amounted to almost \$8,000,000,000. As of last Saturday member firm borrowings amounted to only \$564,000,000. It is doubtful if this loan figure will go up much more. For if it does it is almost certain that margin requirements will go back on the Federal Reserve agenda.

The most important news in the offing is the decisions that will come out of the Roosevelt - Churchill - Stalin talks, now supposed to be underway in some yet unnamed spot. Although no one should be naive enough to imagine that the basic decisions made by the Big Three will become public news in the immediate or even the near future. The

(Continued on page 646)

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**International Air Trade and
Travel Routes of the Future**

By L. WELCH POGUE*

Chairman, Civil Aeronautics Board

Leading Federal Aviation Official Discusses the Proposed International Air Routes of Which 20 Have Been Already Announced. Predicts Great Expansion in Future International Aviation Operations but States That It Has Not Been Decided Whether There Shall Be More Than One American Flag Carrier in the International Field or Whether There Shall Be Competition. Holds the Chicago Aviation Conference Accomplished Important Steps in Encouraging International Aviation and Predicts American Shipping Will Not Be Adversely Affected by Growth of International Aviation but May Be Benefited by the New Traffic Thereby Stimulated

I deeply appreciate the privilege of speaking to the New York Board of Trade. Your membership represents the active and vigorous



L. Welch Pogue

business leadership of the very great city of New York. I prize the opportunity of discussing with so distinguished a group some plans and ideas relating to the future. Sometime in the latter half of the '20's some men, fired with the courage of their convictions and

willing to risk their money and careers in the establishment of commercial air service—a daring venture then—started in the Caribbean area our first small international air operation. From that nucleus grew, during the '30s, the very extensive system of American flag international air lines known as Pan American Airways. If we include the Pan American-Grace Airways, 50% of which is owned by Pan American and 50% by W. R. Grace & Co., the Pan American Airways System operated more route miles by far than the next largest international operator before the war. In 1940, American Export Airlines was authorized to operate a temporary service across the Atlantic, although its operations did not actually start until after the entry of the United States into the war.

Modern war called for air transport operations to serve theatres of war all over the world.

*An address at the First International Aviation Luncheon sponsored by the Aviation Section, New York Board of Trade, New York City, Jan. 24, 1945.

The Air Transport Command was created in the War Department and grew to fill this need. It started with a small nucleus of personnel, many of whom were key officers and technical experts taken from the domestic air lines. And it had only a small number of transport aircraft, most of which were likewise taken from the domestic air lines. It wisely utilized, under contract, the "know-how" and the services of the air line organizations themselves. Intelligently directed, the Air Transport Command has expanded until it is operating approximately 125,000 miles of routes every day, carrying enormous numbers of passengers and millions upon millions of pounds of cargo annually. As of a recent date, the Air Transport Command was operating across the North Atlantic alone approximately 65 trips daily.

In addition, the Naval Air Transport Service has likewise built up a very extensive operation serving naval establishments throughout the world.

These two services, plus the limited amount of commercial transoceanic international service which could be continued during the war, have, in one of history's twinklings, transferred the prospect of transoceanic passenger travel very substantially from the surface to the air. There will, of course, be many pleasant sea voyages hereafter as heretofore; but for then man whose object is to get there, the war has proved the safety of the air and the superiority of air travel in time saved. And speaking of safety, have any of you stopped to think recently of how crazy you would have thought your neighbor had he, 10 years ago, prophesied that it would be safe within a decade to cross the Atlantic by air? While

(Continued on page 642)

Railroad Securities

Even in these days of rehabilitated railroad credit it is unusual to see an operation refunding the entire bonded debt of an individual road at one time. Two such operations are scheduled for this month. The first, Wabash which presumably will have been completed by the time this article appears, is not so noteworthy inasmuch as the road has recently been reorganized and emerged with only one series of one mortgage. The other, Pere Marquette, scheduled for later in month, is noteworthy in that only a few years ago the road was among the suspect of the so-called marginal roads. Ability at this time to contemplate such a comprehensive program is a testimony not only to the generally better investment feeling towards railroads in general, but also to the outstanding progress made by the Pere Marquette management in putting its financial house in order.

The company embarked on a debt retirement program early in 1942 and by the end of 1944 had reduced the 1st mortgage bonds outstanding (the only non-equipment debt of the company) by \$12,067,665 to \$52,467,335. In the refunding it is proposed to reduce this further to \$50,000,000, a total reduction of more than 22%. Fixed charges will naturally show an even wider drop in line with the lower coupon rate anticipated for the new refunding issue.

On completion of the refunding it is believed likely that annual fixed charges will be below \$2,100,000. Ten years ago, when the road was not nearly so well situated physically and, therefore, not so inherently efficient, fixed charges were in excess of \$3,500,000. With the rehabilitation work that has been accomplished in intervening years, and with abandonment of unprofitable mileage, rail men express confidence that these reduced charges should be covered by a good margin even if there should be a return to severe depression conditions. It is also pointed out that the road's depreciation charges for equipment (exclusive of amortization of defense projects) consistently run close of \$2,400,000, or about \$1,100,000 in excess of the present rate of annual equipment trust principal maturities. Roadway depreciation runs close to \$500,000 a year. Thus, a substantial additional cushion is afforded.

Naturally, the improvement in the road's credit implicit in the present refunding plans has stimulated speculative interest in the company's stocks, particularly the prior preference and preferred shares. Both of these \$100 par 5% stocks are cumulative and holders have gone for a considerable period without income return. As of the beginning of this

year there were arrears of \$36,25 a share, or a total of \$4,060,000 on the 112,000 shares of prior preference outstanding. Arrears on the preferred stock amount to \$67.50 a share, or a total of \$8,389,575 on the 124,290 shares of stock outstanding. It is interesting to note that the total of dividend arrears on both classes of stock is just about equal to the amount the company has spent on non-equipment debt retirement since the beginning of 1942, including the bonds to be retired as part of the refunding.

Certainly no one can claim that the money was not better spent on debt retirement than if the company had cleared up the dividends on the stocks. From now on, however, it seems likely that more direct benefits will go to holders of the two senior equities. The problem of maturities is being eliminated and what further debt retirement is considered necessary or desirable should be covered by the sinking fund provisions of the new bond issue. There will be a fixed sinking fund of \$500,000 a year, plus a sinking fund contingent on earnings equivalent to interest on bonds theretofore retired by the sinking fund. This latter will be cumulative even when not earned. Theoretically, and naturally depending to some extent on the coupon rate of the new bonds, the sinking fund is designed to retire some 60% of the issue by maturity.

With debt well provided for and financial position more than adequate, there is no reason for surprise that holders of at least the prior preference stocks are looking forward to reasonably early dividend action. Earnings last year amounted to close to \$27 a share and should be higher this year, influenced by lower fixed charges and the tax credits involved in calling its present bonds for redemption. Obviously, it would not take too long at this rate of earnings to clear up the arrears completely.

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News of Various Issues

We Hear That:

Ludwig Baumann & Co. have called for payment at par and interest to Feb. 15, 1945, all of its first mortgage bonds now outstanding, secured by its warehouse in Long Island City, N. Y. Bonds should be presented to The Continental Bank & Trust Co., 30 Broad Street, New York City.

Sherneth Corporation (Sherry-Netherlands Hotel, New York City) has announced that earnings for the six months' period ended Dec. 31, 1944, were sufficient to permit payment of 2¾% interest March 1, 1945, on the outstanding \$5,736,200 first mortgage income bonds and to provide \$69,000 for the sinking fund for purchase and retirement of bonds. This is an increase over the previous six months' period which provided for 2% interest and a sinking fund of \$32,000.

Broadway Motors Building Corp. has provided the Trustee with \$57,630.89 to be used as a sinking fund for retirement of bonds, tenders to be accepted up to 3 p.m. Feb. 19, 1945. This amount rep-

resents the unexpended portion of the \$106,816.41 allocated from 1944 earnings. The original \$6,000,000 issue on this property (General Motors Building, New York City) had been reduced to \$3,154,000 as of Dec. 31, 1944. The present sinking fund operation will further reduce the issue. Future annual sinking funds should sizably increase as about \$50,000 was allocated from 1944 earnings to service second mortgage 3% bonds which after the application of these bonds will be reduced to \$8,000. The 1945 sinking fund should be increased by this difference. As ground rent is also reduced \$50,000 annually as of Nov. 1, 1945, annual sinking funds may easily exceed \$200,000.

New York Chamber of Commerce Opposes Repeal of Johnson Act

By Vote of 54 to 47, Many Members Not Voting, Organization Refused to Approve Report of Its Committee on Finance and Industry Which Recommended Repeal of Law Forbidding the Flotation of Loans of Foreign Governments in Default. Capt. John B. Trevor Delivers Spirited Address Opposing the Report. Chamber Passes Resolution Opposing Legislation Which "Dictates to Any Employer in Private Enterprise Whom He Shall Employ."

The Chamber of Commerce of the State of New York at its monthly meeting on Feb. 1 at 65 Liberty Street went on record as opposed to the repeal of the Johnson Act forbidding the flotation in this country of loans to foreign governments in default on their debts to the United States.

The action was taken following the introduction of a report presented by James G. Blaine, Chairman of the Committee on Finance and Currency, which urged repeal of the Johnson Act on the ground that "a large expansion of foreign commerce through regular commercial and banking channels under a private competitive system" was necessary for reasonably full post-war employment and prosperity.

Capt. John B. Trevor, Chairman of the Committee on Immigration and Naturalization, led a spirited fight against the adoption of the report. His proposal to refer the report back to committee was carried by a vote of 54 to 47, with many members refraining from voting. Speaking against the report, Capt. Trevor said:

"The essence of this resolution is advocacy of a program to re-finance bankrupt nations. In my opinion it cannot be honestly asserted that these bankrupt nations offer any better possibilities of paying future debts than they did for those on which they have defaulted. On the contrary, a fair estimate of their capability of meeting future obligations would be that their economic condition is far worse than ever before in their history. There is possibly one nation which should be excepted from this statement. That

is Soviet Russia. Prior to the outbreak of this war Soviet Russia owed us \$438,000,000, which she persistently and consistently declined to pay. The total amount of defaults on debts incurred prior to the present war, as of July 1, 1944, is over \$14,000,000,000. This figure relates solely to European nations. You will observe that I do not include \$28,000,000,000 advanced to our bankrupt creditors under the Lend-Lease Act because the major part of that staggering total is neither lent nor leased, but obviously an irrecoverable gift.

"It is said in the report of the committee that the reason for the failure of these bankrupt nations to meet their obligations was 'not because of the inability of borrowers to provide funds for the contractual debt service, but rather owing to their inability to transfer such funds into the currencies of their creditors, due to the new conditions affecting world trade and finance.'

"That statement is far too broad, Mr. President. It is not substantiated by a statistical analysis of our international financial operations. Statistical data published recently by the National City Bank shows that during the period 1931-1939, foreign creditor nations had available in the United States for the payment of their debts a sum of \$6,200,000,000. These nations, however, preferred to see this

(Continued on page 641)

Weissman Publishes Economic Program For Small Business

SEC Official, in New Book, Proposes a Scheme to Raise Venture Capital. Would Have Commercial Banks Organize Regional Institutions, Supervised by Federal Reserve, to Buy Equity Securities.

Rudolph L. Weissman, on the staff of the Securities and Exchange Commission, has just published, through Harper & Brothers, a book



Rudolph L. Weissman

of 173 pages, entitled "Small Business and Venture Capital, An Economic Program," in which he reviews the problems of small business financing, the relation of small business to the survival of democracy, and the various proposals that have been put forth to aid in the establishment and preservation of small and medium sized independent business concerns. The views expressed by Mr. Weissman are his own, and he states in his preface that the Securities and Exchange Commission "has no responsibility for the writing of the book, nor are the views endorsed therein necessarily endorsed by it."

Mr. Weissman, who has already written several volumes relating to the Federal Reserve System, Wall Street and similar subjects, pictures the position of "small business" (i. e. concerns with capital ranging from \$50,000 to \$5,000,000) as a desperate one, due largely to inability to obtain "venture capital" from outside sources. He defines venture capital as "risk capital" represented by common and preferred stock. He reviews the discussions of the problem, as considered by the Macmillan Committee in Great Britain in 1931; by the Temporary National Economic Committee in 1938; by the National Resources Planning Board, the Reconstruction Finance Corporation; the Smaller War Plants Corporation, and other Government agencies, as well as the efforts of such men as Senator James M. Mead and Dr. Charles L. Merwin. He sifts their proposals and points out the defects and advantages. He holds that the SEC regulation requirements are in no way responsible for the inability of small and medium sized concerns to float stock issues for public subscription, reverting to the investigation which showed that of total security flotation costs of \$14 per \$100 of capital to small concerns, the registration expense was but a small fraction, but he admits on page 62 that "full disclosure requirements and the sanctions imposed by the Securities Act of 1933 have not been without influence."

Mr. Weissman's own solution, which he says offers "a realistic and practical approach to the problem of small business" is expressed by him as follows:

"It is proposed that the commercial member banks of the Federal Reserve System incorporate and have title to the stock of the organization to be called the Federal Reserve Investment Corporation. Since its purpose will be investment in industry, it is further proposed that the banks in the Central Reserve and Reserve cities furnish the capital. The principle adopted is exactly the same as that employed in the formation of the Federal Reserve System. Each bank will purchase stock in the new corporation according to the amount of its total assets or capital and surplus."

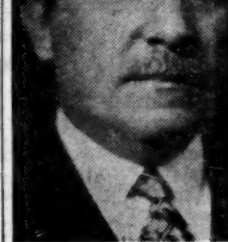
"The Federal Reserve Investment Corporation should be set

up along regional lines, following the geographic location of the Federal Reserve banks and their branches, so that there would be twelve districts and as many branches, so that there would be necessary. The Board of Governors of the Federal Reserve System is to exercise general supervisory authority, and fix the general rules and regulations regarding the principles to be followed in making investments, framing procedure, etc. The regional officers are to be autonomous to the greatest degree possible, subject to the general guidance of the Board of Governors. These of-

(Continued on page 645)

Geo. Bovenizer Heads Inv. Bankers Div. of Legal Aid Appeal

George W. Bovenizer, a partner of Kuhn, Loeb & Co., has accepted the chairmanship of the Investment Bankers' Division of The Legal Aid Society 1945 Appeal, which is scheduled to open officially with the annual meeting of the Society on Feb. 28.



G. W. Bovenizer

The goal of the appeal this year is \$160,000. This amount is needed to meet the expenses of the Society in supplying legal advice and representation in court, when necessary, to New York residents with legal problems who cannot afford to pay an attorney. A permanent staff of 22 salaried attorneys at its headquarters, at 11 Park Place, and at its Criminal Branch in the Criminal Courts Building, handle the cases of more than 30,000 persons each year who apply for legal assistance.

The War has greatly increased the work of the Society as during the last two years more than 16,000 soldiers and sailors and their dependents have applied to the Society for help in straightening out their legal problems, largely induced by war conditions. These cases are handled without question of the Service man's ability to engage an attorney. The importance to morale in the Armed Forces of settling the legal troubles of Service men and women is recognized by both the Army and the Navy which have set up Legal Assistance Offices wherever troops are stationed. The Legal Aid Society has been designated as an official Legal Assistance Office for New York and vicinity. In that capacity it handles not only cases of local origin but matters affecting members of the Armed Forces from New York City are referred to it from all parts of the United States and even from overseas.

The 1945 Appeal Committee is headed by Irving S. Olds, Chairman of the Board of the United States Steel Corporation. Chairmen for the various commerce and industry divisions into which the committee will be divided are now being selected.

The Treatment of Capital Gains And Losses

(Continued from page 618)

ing a gain in a single year bunches in that year income that has accrued over a longer period. So the tax is higher than it would have been if the gain had been taxed bit by bit as it grew. A highly progressive rate structure and high rates emphasize this inequity. It is no more than fair that the tax on a gain when realized should approximate a year-by-year tax as the gain accrued.

However, this reasoning is only partially sound. It is based on the premise that gains do accrue ratably over the period of ownership of an asset. But that is not always true. It may be true of an evenly developing real estate gain, or a stock gain arising from the steady accumulation of profits in a corporation. It is not true of a real estate gain that arises from a sudden community boom or that stems fortuitously from some local improvement. It would not be true of many stock gains which reflect expectations of enhanced future profits.

Nevertheless, it is probably true that a large proportion of capital gains do accrue gradually, if not evenly, over the period of ownership, and there is much rough justice in extending to them a tax treatment which avoids the effect of an artificial concentration of taxable income in one year. The 1934 Revenue Act applied this theory. It provided for taxing capital gains according to the length of time the assets had been owned; the longer the period, the lower the tax. No special treatment was available until an asset had been held over a year. Whatever its faults, this provision had much in its favor from the standpoint of equity.

Another argument for special treatment, frequently advanced, is more vulnerable. The contention is that capital gains merely reflect a general rise in the price level, so there is no real increment at all in terms of purchasing power. They may be no more than a manifestation of inflation. Therefore, say the advocates of special treatment, capital gains are illusory.

But the fact remains that price fluctuations affect all kinds of income. Higher wages may not represent any increase in a man's ability to pay taxes, if the cost of living has kept pace with the wage rise. No tax law can do absolute justice all along the line in an economy of shifting dollar purchasing power.

The impossibility of doing absolute justice is not a valid reason for failing to do justice that can be done. A perfectionist is a dangerous man in the tax world, which is full of things that need to be done as well as they can be done. War conditions have accentuated a problem which was with us before the war, but which now recurs too frequently to be neglected any longer. I want to give you a simple case history. In 1913, Mr. Smith came to Washington to work for the Government. He bought a house for \$5,000. In 1943, after he had devoted 30 years to Government service, he was ordered to Chicago. He sold his house for \$15,000 and moved his family. Plainly he had a capital gain of \$10,000. But Mr. Smith was spoiled; he liked to own his home; moreover, in Chicago he could find no apartment at a reasonable rental. So he bought another house. It was no better than the one he had sold in Washington, but it cost him \$15,000, exactly the amount he had received for his Washington house.

The amount he had received, yes. But not the amount he had left in his pocket. The Treasury had part of the first \$15,000 and

Mr. Smith had to dip into his savings to pay for the second house.

Mr. Smith's tax lawyer told him he had no recourse. But if Mr. Smith had been in business and his house had been a ship which was requisitioned by the Government for \$15,000, the advice would have been different. Then he would have had an "involuntary conversion" and he could have established a fund with the first \$15,000 to replace the ship. Then he would have had no taxable gain, and the \$15,000 would have been in his pocket and available to buy the second ship.

In practical fact, Mr. Smith had an involuntary conversion. He had no choice but to go to Chicago. It is hard to see why he should not enjoy the financial position in Chicago that he did in Washington.

There are thousands of Mr. Smiths in Government and in business. Never were business conditions so chaotic as today, and never was so much geographical shifting of personnel required both by business and Government. If Mr. Smith were politically-minded, he could make a strong case for tax relief. He has had no increase in the type of wealth which gives him ability to pay taxes. But he is just an ordinary citizen, not an oil company, or a lumber owner, or a commercial air line, or the owner of a natural gas pipe line. So he takes his medicine. But the income tax is not popular in that house in Chicago. Mr. Smith might pay his other taxes more willingly if he thought he had been fairly treated.

Of all the reasons urged for eliminating or reducing the capital gains tax, the lamest is that we should emulate the British. It is true that the British tax gains from transactions that are part of the taxpayer's regular business at regular rates. But the British situation differs fundamentally from ours. Transactions which are not part of a taxpayer's regular business are relatively less important in Great Britain than they are here. But, even more significant, the British system permits serious tax avoidance, and for that reason it has been condemned by British tax authorities.

The theory is frequently voiced that profits realized over a period of time from investment in securities or property should not be taxed in the ordinary way because it would have a deterrent effect on risk capital. So, it is urged, the capital gains rate should be lowered, or the tax eliminated, as an incentive to business. Critics insist that the tax has a "chilling effect" and "checks risk taking," that its repeal would free "venture capital." Some even go so far as to say that the elimination of the tax would stop depressions.

They further argue that revenue would be increased by repeal or reduction of the tax, since market activity would be stimulated by removing a barrier to selling. The idea is that the tax inhibits selling, especially in the case of older investors who will be able at death to pass on their gains tax free. Congressional committees have been wooed with extravagant estimates of increased yield. These claims, however, over-simplify the problem. No one will deny that the capital gains tax has a regulatory effect. That is true of any tax. But many factors determine the yield of a tax on capital gains: the level of the market, anticipation of future prices and future taxes, the cost of assets in the hands of the holders, the distribu-

tion of assets by income brackets, and the extent to which individuals holding assets with gains also hold assets with losses. The method of taxing capital gains is only one of many factors affecting the amount of gains realized. Variations in capital gains revenue have been determined primarily by changes in stock prices rather than by changes in tax methods. Furthermore, the elimination of the capital gains tax would not stop depressions. We had depressions before we had the tax. England does not have the tax and it has depressions.

We must also distinguish between long-run and short-run revenue effects, and between the direct yield from the capital gains tax and its indirect effects. The tax is designed not only to raise revenue directly, but also to prevent the avoidance of other taxes. Other income can be converted into capital gains in many ways as, for example, by allowing profits to remain in corporations. Section 102 of the Internal Revenue Code, which is designed to prevent avoidance of individual income taxes by the accumulation of corporate surpluses, is not adequate to prevent this avoidance.

Finally, we should know who realizes most capital gains. About 80% of capital gains come from stock market operations, and a slightly smaller percentage of losses. In 1939, a fairly typical year capital gains constituted less than 1% of the net income reported by individuals with incomes under \$5,000, less than 3% of the net income of persons with incomes between \$5,000 and \$25,000, and 96% of the tax came from persons with incomes over \$25,000.

The distribution of capital gains is preponderantly to the high incomes. The income class from \$100,000 to \$1,000,000, for example, reported in 1938 only 2.5% of aggregate net income, but it reported 33% of capital gains. It is plain to see that a more favorable treatment of capital gains would benefit only a small high income group.

Arguments for special treatment of capital gains, based on the premise that concessions in this direction would stimulate business activity, fail to face the choices before us. Practically every tax has some effect on the willingness of investors to risk their capital in hazardous enterprises. High surtaxes have that effect. So do corporate taxes. But what are the alternatives? Merely a choice of evils. We cannot renounce all taxes because they reduce business activity. That would be jumping from the frying pan into the fire.

And what of capital losses? Existing law limits the right to deduct losses in various ways. Some taxpayers think that the

Government is guilty of sharp practice in taxing their gains in full and refusing to give the same full consideration to their losses. If capital gains were taxed in full, there would be no justification for any such limitation. But the favored treatment of capital gains, plus the fact that the timing of both gains and losses is largely an option of the tax payer, affords considerable justification on grounds of equity.

However, the problem goes beyond strictly equitable considerations. The question of risk-taking is relevant. As things are now, the extent to which investors may use the limited loss provisions of the statute depends primarily upon the availability of other income. Obviously, the positions of taxpayers differ widely in this respect. There are discriminations between large and small investors; large investors are more likely to have other income against which to offset losses. Inequities of this type increase economic concentration and tend to lower the volume of new investment. It is worth serious consideration whether the gain to the economy to be derived from increased risk-taking would not be worth more than the revenue loss involved in some reasonable averaging devices, the extension of the carry-forward period for losses, and a less discriminatory treatment of capital losses. Such provisions would, however, take away much of the existing justification of special treatment for capital gains. They would leave untouched the justification inherent in the argument that capital gains are "bunched" in a single year, and perhaps the argument (applicable only to stock transactions) that a differential rate is justified by the corporate tax.

The post-war tax plan of the Committee for Economic Development advocates the full taxation of capital gains and the full deduction of capital losses until a time when corporate and personal income taxes have been substantially reduced and the averaging of income is permitted. For the present, like the Ruml-Sonne plan, the CED recommends a retention of the present differential treatment. The CED also recommends that capital gains and losses should be recognized at transfer by gift or at death. The Twin Cities Tax Plan, on the other hand, would reduce the tax on capital gains to 12½%.

A short time ago I remember hearing over the radio the words: "It's time for a change." I think it is time for a change—for another kind of change—a change of emphasis. Capital gains are, after all, only one small sector of our tax front. Instead of tinkering with the treatment of capital gains, let's take a longer and



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Report!

The annual report of a large business corporation used to be, as a rule, and reading, except for those closely interested: the stockholders, bankers, statisticians, analysts, etc. But times have changed in America and in so-called "big business."

The chairman of the board and the president of this company, Schenley, have just made their annual report to the stockholders. In it there is something besides a very gratifying accounting of actual business performance, because foremost in the minds of those who direct the affairs of this company is "the responsibility which our Company shares with all industry to provide useful and regular employment and to encourage progress and rising standards of living."

That note—and it is a good note—is sincerely sounded today, this recorder is happy to report, by nearly every worthwhile corporation in America! We have many laws and regulations affecting business. But the self-imposed rules and regulations affecting the lives and welfare of workers which prevail here and in other good companies—the humanics in the business—are among the most encouraging highlights in our American life.

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Results Of Treasury Bill Offering

The Secretary of the Treasury announced on Feb. 6 that the tenders of \$1,300,000,000 or thereabouts, of 91-day Treasury bills to be dated Feb. 8 and to mature May 10, 1945, which were offered on Jan. 26, were opened at the Federal Reserve Banks on Feb. 5.

The details of this issue are as follows:

Total applied for \$2,027,564,000. Total accepted, \$1,309,856,000 (includes \$57,191,000 entered on a fixed price basis at 99.905 and accepted in full).

Average price 99.905, equivalent rate of discount approximately 0.375% per annum.

Range of accepted competitive bids:

High, 99.910, equivalent rate of discount approximately 0.356% per annum.

Low, 99.905, equivalent rate of discount approximately 0.376% per annum.

(59% of the amount bid for at the low price was accepted.)

There was a maturity of a similar issue of bills on Feb. 8 in the amount of \$1,314,251,000.

broader view. Our future taxes will have an important bearing upon the post-war economy and our national well-being. A sound over-all system will help toward full employment and prosperity. Let's go after a post-war tax system that will produce capital gains instead of capital losses. Let's keep our eyes on that ball. Then taxes will take care of themselves.

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Wisconsin Brevities

By order of the United States District Court for the District of Minnesota, Fourth Division, dated Jan. 13, 1945, E. A. Whitman and Edgar F. Zelle, trustees of the property of the Wisconsin Central Railway, were authorized and directed to pay the interest coupons matured Jan. 1, 1938 and July 1, 1938 on 1st gen. mtge. 50-year 4% gold bonds due July 1, 1949; which order contains a provision that, upon surrender of such coupons and receipt of payment thereof at the face amount, the holders of such coupons are barred from any further claim upon or in connection with or arising out of the possession or ownership of the coupons so paid. In accordance with the provisions of such order, the trustees transmitted funds for the payment of such coupons on February 5 to the Bank of Montreal, 64 Wall St., New York 5, N. Y.

The trustees of the Wisconsin Central Railway recently asked the Interstate Commerce Commission to defer for the present hearings on the plan of reorganization which was filed in December by the protective committee for the first general mortgage bonds.

The trustees told the Commission they believed considerable time and expense could be saved if they were given further opportunity to study the pending plan and to canvass possibilities of agreement and compromise on all pending controversies. The trustees were directed by the court in December to formulate a plan of their own for the road.

A net profit of \$307,966 after all deductions for the quarterly period ending Dec. 31, 1944, is reported by the Outboard, Marine & Manufacturing Co., which has its Evinrude Motors division in Milwaukee. This is equal to \$1.04 per share on the 297,018 capital shares outstanding and compares with the 1943 profit for the same period of \$288,630 or 97 cents per share.

Net sales in the 1944 period totaled \$8,073,068, compared with \$7,236,659 for the same period in 1943.

Deductions included \$1,489,000 for taxes, compared with \$1,165,500 for the 1943 period, and \$175,000, as a special reserve for contingencies, including renegotiation of war contracts and conver-

sion and readjustments for civilian production as against \$150,000 for the 1943 quarter.

Rae F. Bell, former First Vice-President, has been elected Chairman of the board of directors of the A. O. Smith Corp. to succeed the late L. R. Smith. Anthony von Wening, formerly a Vice-President of the Continental Illinois National Bank & Trust Co., of Chicago, who joined the A. O. Smith Corp. in 1940, has been elected Vice-President and Controller.

Other officers were re-elected as follows: W. C. Heath, President; John M. Floyd, Vice-President in charge of manufacturing; R. Furrer, Vice-President in charge of engineering and J. J. Stamm, Secretary and Treasurer.

The Allis-Chalmers Manufacturing Co., according to data filed with the SEC, has reduced outstanding borrowings under its V-loan agreement with 22 banks from \$75,000,000 to \$40,000,000 by pre-payment of \$35,000,000 of notes due on Aug. 10, 1946.

The company has declared a regular quarterly dividend of \$1 per share on its \$4 preferred stock payable March 5 to holders of record February 13.

Commodity Exchange Re-elects Weld Pres.

Philip B. Weld of Harris, Upham & Co. was re-elected for a third term as President of Commodity Exchange, Inc., on Jan. 31. Floyd Y. Keeler of Orvis Brothers & Company was re-elected Treasurer. The Vice-Presidents elected were Richard F. Teichgraber, Milton R. Katzenberg, Paulino Gerli, and Louis V. Keeler.

At the annual election of members of Commodity Exchange, Inc. the following Governors were elected to represent the various groups of the Exchange: Comission House Group, Floyd Y. Keeler and Philip B. Weld; the Hide Group, Milton R. Katzenberg and Albert O. Trostel, Jr.; the Silk Group, Alexander D. Walker and Nathan Lewis; Metal Group, Ivan Reitler and Hans A. Vogelstein; Rubber Group, Aage Bendixsen and Nathan W. Diamond; and the Non-Trade Group, Kuo G. Li.

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The Economic and Political Consequences Of Lord Keynes' Theories

(Continued from first page)
is manifestly pursuing political and social aims, and its success would jeopardize our essential liberties.

What are the exceptional virtues or serious defects of the gold standard that it should arouse so much praise and such bitter opposition? If the gold standard had only defects inherent to any man-made instrument or mechanism, we could hardly explain the struggle led at present by some English groups against the gold standard, since the British Empire is one of the greatest gold producers and since it is indispensable to her in order to balance her international accounts. If the gold standard did not have anti-totalitarian and pro-democratic virtues, the Nazis would not be conducting a campaign against gold which they haven't ceased even during the war.

Respect for gold as money is not due to the color and the odor of the metal nor is it merely a barbarous relic as Lord Keynes has been trying to make us believe since 1923. No impartial and objective individual will dispute the faults of the gold standard, but its virtues are so exceptional, that did it not exist, it would have to be invented. We would be wiser not to renounce the instruments which mysterious and providential nature has put at our disposal until human beings prove by their behavior that it is advisable to do without some automatic controls over the stupidity, folly, and selfishness of men. The more we contemplate the actions of men, the more we are convinced that they are their own worst enemies. Isn't it preposterous that "liberals" whose devotion to liberty is sincere and profound, preach, at the same time, a social and economic policy which would lead inevitably to totalitarianism? Isn't it also surprising that the champions of private enterprise and economic liberalism adopt an uncompromising conservative attitude with regard to social and political problems, which lacks foresight and the necessary flexibility to assure its orderly evolution and thereby, its conservation?

Gold—Instrument of International Cooperation

Regardless of what its slanderers may say, the gold standard has served the cause of peace and has been an admirable instrument of international cooperation. It has coordinated the movements of prices in the different countries and it has thus unified the international monetary system. It is thanks to the gold standard that the good functioning of the international monetary system has been spared the evil influences of the doctrine of national sovereignty. It is the gold standard which has made possible the expansion of international commerce and the distribution throughout the world of the benefits that are derived from the international division of labor. It is gold and its general acceptance which permits each individual to buy what he wants and to sell the fruit of his labor any place in the world, thereby spreading the benefits of competition. It is gold which assures the individual his independence and which is the best shield of the small states against the arbitrariness of the large ones. Contrary to what a superficial judgment would indicate, gold and the gold standard are not the weapons of oppression of the well-to-do, but rather the weapons of defense of the weak and the disinherited. It is the stability of gold, its general acceptance and its liberty of movement which have made possible the development of backward countries by the savings of

the capitalist world (which means privations and individual risks!). It is gold, to sum up, which has been the best weapon against economic nationalism and its dangers. It is not merely by chance that Lord Keynes wrote in 1932 in the American publication *Foreign Affairs*, an article entitled, "National Self - Sufficiency," in which he stated his hatred and his contempt for the system of "laissez-faire" and gave his reasons for favoring economic nationalism. There is a direct relation between his contempt for gold and his dislike of economic internationalism. Just imagine the obstacles to trade between nations if, deprived of an international money, prices in the different countries were free to move according to domestic contingencies, resulting thereby in disparities that could be corrected only by instability of exchanges and economic war. The government of men is confronted with many problems, complex and difficult. No question, however, presents as difficult a problem as that of harmony between nations, and it is indisputable, I think, that international trade and foreign investments serve to spread well-being through the entire world, thus contributing to the maintenance of peace among men. The English socialist, G. D. H. Cole, does not hesitate to state in his book, "Great Britain in the Post-War World" (1941), that it would be difficult to prove that even (sic!) a socialist nation whose problems of poverty were not solved, would consent to tighten its belt for many years for the purpose of contributing capital to the development of backward countries. We would not have any difficulty in proving, on the contrary, that it is more probable that a capitalist nation would, more readily than a socialist one, impose on itself, as a result of the very functioning of its economic-financial mechanism, immediate privations for the sake of benefits (or losses) in the future. Ohlin, Benes, and A. Basch agree that those countries whose economy is controlled by the Government cannot hope to obtain even the benefits of a customs union; without the mechanism of economic liberalism, we are compelled to have recourse to an economic union and even a political one (that is to say: to submit the nations to the orders and directives of a central authority in order to derive the potential benefits from a large market).

Gold and Lord Keynes

The critics of gold can be classified in two categories. Firstly, there are the pure technicians (the great majority of critics) who accuse gold of being an imperfect mechanism for the control of the quantity of money and credit which economy is supposed to need to be prosperous and stable, and of being a bad instrument for bringing about an international balance of payments. The second category of critics of gold (or rather slanderers), small in number, is strongly influenced by a certain political and social philosophy; these are the most dangerous. The most famous and influential among these latter is Lord Keynes. One would misinterpret my intentions if the remarks which follow were taken as an attack directed against the person of Lord Keynes himself; it is the ideas, or rather the philosophy with which his name is associated, that I am fighting against. It is he, himself, who stated, and with good reason, that ideas, whether false or just, of political philosophers and economists are more powerful and more dangerous than the possessions of vested interests. And Lord Keynes has not only a philosophy

and economic monetary theories with which he would like to "experiment." His prestige is considerable since he has created for himself the reputation of having been a prophet whose predictions have been confirmed by subsequent events. The respect paid him in the House of Lords is significant. While he is fighting to relegate gold to the rank of a "constitutional king," he has established himself as the monarch of the new monetary doctrinaires. As a matter of fact, Lord Keynes is already looking in another direction and is manifestly endeavoring to find a compromise between economic nationalism and internationalism. However, the danger is that his disciples and neophytes are not disarming and are even going so far as to contend that Lord Keynes has betrayed them at Bretton Woods (read the attack against the projects adopted at Bretton Woods published in the English magazine, *Banking*). It is, nevertheless, in examining the ideas and past predictions of Lord Keynes that we have the best chance of discovering the fundamental ideas and aims of the critics of gold, and especially of those who have a political and social philosophy. I intend to make this analysis not only with all the objectivity of which I am capable, but with all the deference due the author of "The Economic Consequences of Peace," a book still worth reading by all leaders of people and men in politics.

The Philosophy of Lord Keynes

It is essential to study the philosophy of Lord Keynes if we want to explain and understand his attitude toward gold. It isn't the presupposed tyranny exercised by gold on men and economy which has led him to espouse his philosophy, but it is this last which determined his attitude regarding gold.

First of all, what does Lord Keynes think about human nature? The answer to this question seems of primary importance for it is impossible without it to have a workable political philosophy and also because economic phenomena are determined, to a large extent, by psychological factors. Men seem to him to have natural inclinations toward cruelty as well as a desire for personal power. Lord Keynes also admits that man has a passion for money. He even feels that it is better for humanity that man's desire for power be directed towards increasing his bank account. Lord Keynes does not believe that we can change human nature, but he is of the opinion that we can "direct" it. (I am indeed, very much afraid that if we push too far our control of money and economy, we will be obliged to direct human nature... with the help of a knout.) For what purpose should we educate human nature? The ruling class, answers Lord Keynes, should be trained to be satisfied with smaller returns than in the past in order to allow a more equitable distribution of revenue.

To the question of whether what Lord Keynes calls an equitable distribution of revenue is not going to decrease savings, he answers with satisfaction in the affirmative, since for him there is not only too much saving, but this latter is practically a sin. Too much saving and not enough consumption and investments, these are the source of all our evils, according to the diagnosis of Lord Keynes. He maintains that the needs for capital are too moderate and that interest rates on savings should tend toward zero. He is in favor of "the euthanasia of the rentier" and he predicts their eventual



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To get in there now, and really start
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disappearance . . . when they will have finished their job (?). On the other hand, only last September, the "Economist" published a series of articles asserting that the increase of productivity of English industry—without which increase England is facing serious dangers—depends on savings, and, furthermore, that the investment of these savings will be governed by the possibility of realizing profits in proportion to the risks involved. Lord Keynes is fighting against savings maintained in the form of money and bank deposits. He has even declared himself in favor of "melting money" as recommended by a German, Silvio Gesell. This consists in a penalty on money not used which should be proportionate to the time it has not been utilized. One may recall that in France a former Prime Minister endorsed, in 1935, "melting money" as a remedy for the depression from which she was then suffering. But, may I ask, with such theories on savings and the functions of money, what part can gold well play?

Assuming that the national needs of well-to-do countries are satisfied, could the excess savings not be invested in those countries which need to be developed and equipped industrially? The development of backward countries was in 1932 not only the last and least of Lord Keynes' worries but he frankly declared himself as being opposed to the export of capital. In the article published under his signature in the American publication, *Foreign Affairs*, (1932) entitled "National Self-Sufficiency", he states: "above all, let finance be primarily national." Perhaps in none of his other writings is the philosophy of Lord Keynes as clearly expounded as in this article. He herein states that he detests "individualistic and decadent capitalism" and he adds that he is beginning to be contemptuous of it. But does not economic liberalism contribute to the maintenance of peace through commerce and international division of labor? On the contrary! says Lord Keynes; it stimulates the struggle for markets between nations; it fosters the progress of economic imperialism and it necessitates the defense of investments abroad. One is certainly not misinterpreting his thought in attributing to him the conviction that the war of 1914 was due to economic internationalism. What is more, he can only see advantage from a national point of view that capital be prevented from emigrating. In reading Lord Keynes, one cannot help discovering a sort of aversion towards competition, the cornerstone of economic liberalism. For him, the Stock Exchange is only a casino for gambling! Summing up, Lord Keynes in 1932, was advocating the adoption of a form of economic nationalism (national self-sufficiency) which might lend itself for "experiments" in accordance with his doctrines and in order to bring about the realization of an "ideal social republic." One is wondering what could well be the role of gold in such an "ideal social republic" and how should one be surprised at the pride Lord Keynes takes in having called gold "a barbarous relic"?

During the last few years, Lord Keynes has been defending exchange instability and disparity in national price levels in the name of the "full employment" dogma. He has published in the British magazine, "The Economic Journal" (September, 1943) a curious and rather obscure article in which he rejects stability of prices as a desirable objective of monetary policy. He justifies his position with the argument that politically it would not be expedient or possible to prevent the constant rise of wage rates, or rather what he calls "efficiency wages". Furthermore, Lord Keynes thinks that the quantity of

money available should not be an obstacle to the "natural" rise of wages. If we understand him correctly, he now declares himself against exchange stability in the name of the "full-employment" doctrine which has as a corollary a constant rise of nominal salaries, which rise would be difficult or impossible to control. It is clear, however, that exchange instability is defended presently by Lord Keynes for political rather than economic reasons. Lord Keynes also makes (innocently or facetiously?) the remark that a communist country is in a position to be very successful in preserving stability of internal prices and efficiency wages. Nazi Germany has demonstrated to the world by what means this double objective can be attained. They are simple and obvious: dictatorship, suppression of liberty and of labor unions, and last but not least, exchange control.

The political and economic-social philosophy of Keynes would suffice alone to explain his animosity for gold which has been the excellent servant of liberalism and economic internationalism.

The Anglo-American Economic Rivalry

Another reason, however, for his position against the gold standard is the fact that after 1918 England lost her industrial and financial supremacy. It can be proven that the ideas, leanings and prejudices of many economists are often determined by the problems with which their era or their particular country is confronted. The struggle involving the gold standard is fundamentally only an aspect of the economic-financial rivalry between English and Americans. The extraordinary rise of American industrial power after 1918 and the switch of the financial gravity center of the world from London to New York, explain, to a great extent, Lord Keynes' hostility, as well as that of other English economists, toward the gold standard. Among these latter, we must mention Paul Einzig, one of the influential editors of the newspaper, "Financial News," and also author of the "Daily Express" article to which we have already referred. He has the merit of speaking in plain terms of the economic-financial rivalry between the Anglo-Saxon cousins. For several years he has been campaigning against the gold standard. To read what he has to say on it at present, we cannot help but wonder if he has ever read the book, "The Future of Gold," written by Paul Einzig in 1935 in which he himself states that if the gold standard did not exist, it would have to be invented.

There is still another reason which should incite us to listen with a critical mind to the ideas and opinions of Lord Keynes. He is the author of several new monetary theories, of which the most important is the one which deals with the influence of low rates of interest on investments and economic activity. It often happens that philosophers who have a system of their own, or economists who believe they have discovered the philosopher's stone, suffer from a particular blindness which prevents them from being objective; they become prisoners and sometimes victims of their own theories. To the extent that Lord Keynes' position against the gold standard is influenced by consideration of monetary doctrines, it is due to his theory concerning interest rates.

What is equally surprising in reading the writings of Lord Keynes is to discover his confidence in human judgment to "direct" money, savings, investments, economy and presumably even human nature. It is evident that his monetary strategy is based on psychological manipulations and, if necessary, on coercion. The

fact that in matters of monetary doctrines he is more often than not, in complete disagreement with an economist as eminent as Hawtrey, to cite but one example, hardly disturbs Lord Keynes. He detests economic liberalism; England is in search of a new formula to keep her power; and in addition, he is the author of a new monetary theory—these are apparently good enough reasons to plunge England and the rest of the world into great experiments, however hazardous and dangerous they may be!

These are the seeds sown by one of the most brilliant and intelligent men living. The main economic and political consequences of his philosophy and economic doctrines may be summarized and restated as follows:

(1) The theory of deficit spending and the idea that the govern-

ment debt may rise harmlessly to any figure.

(2) The idea that savings are excessive in countries like the U. S. A., England and France, and that to save is sinful.

(3) He propagated the purchasing power theory as against the equilibrium theory. In doing so, Lord Keynes lent his support to inflationary processes and higher prices. He seemingly does not share the view that the best means to distribute income and wealth is by lower and lower prices.

(4) The doctrine that exchange instability is harmless. This doctrine implies the choice in favor of nationalism as against internationalism.

I consider the last one the most dangerous of the four, for the simple reason that the most difficult problem confronting society is harmony among nations.

I shall, therefore, discuss in the second part of this study mainly the false ideas or pre-conceptions underlying the present campaign in Great Britain against exchange stability and for the maintenance of exchange control.

[The second installment of this article will appear in the February 15 issue of the "Chronicle."—Editor.]

FHLB Sell Debentures

The Federal Home Loan Banks sold on Jan. 4, 1945, at par, an issue of \$50,000,000 0.85% debentures, dated Jan. 15, 1945, due July 15, 1945. The issue was offered through Everett Smith, fiscal agent, New York. Proceeds were used to retire a portion of the \$34,300,000 debentures due Jan. 15, 1945.



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The Securities Salesman's Corner

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By JOHN DUTTON

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That's the way Edward D. Jones, of Edward D. Jones & Co. of St. Louis, introduced the subject of why it is important to SECURE NEW CUSTOMERS, in addressing a meeting recently held by his sales organization. The soundness of his premise is well illustrated by some of the interesting facts which he developed during the course of his address on this timely subject.

For instance, he brought out the point that nearly 24,000,000 voters today scarcely remember any other President except Roosevelt, because they were 12 years old or less when he was inaugurated. That 20,000,000 people have come of age in the last 10 years. That firms and products famous to their fathers are unknown to them. That next year another 2,000,000 will come along who never saw an elephant, heard of Edward D. Jones & Co., Wall Street, New York Stock Exchange or Stocks and Bonds. In five years there will be another 10,000,000. Not all will become security buyers, but their good opinions are important to his firm and to the securities business.

Conversely, Mr. Jones went on to illustrate that nearly 10,000,000 people have died in the past 10 years. Each year nearly a million people pass on. THEY ARE OUT OF THE MARKET, and for the forward looking investment banker, merchant, broker, or salesman, their places must be taken by newcomers. Those who never saw an elephant.

Then he went on to point out that not only is the memory of most of us very short, but some of the things which we believe to exist in the minds of the general public are to millions only a hazy and scarcely remembered recollection. A new generation has been born to whom 1929 was only a year in which market history was made. Sixteen years pass quickly and so why not—forget 1929 and the panic.

Then Mr. Jones made a point which in our opinion goes right to the heart of today's merchandising problem for most of us engaged in the securities business. He stressed continuous, positive, forward-looking advertising and sales promotion. He pointed out that all these new prospects which have been accumulating during the past 16 years present one of the greatest potential markets which we have ever known in the history of this business.

This is true providing we avail ourselves of the opportunity by telling the public about ourselves, our securities, our services, and by doing this consistently. Publicity is the answer—good publicity. In every community some firm has the opportunity of stepping out ahead of the crowd by using the daily papers to tell their story in language the PUBLIC LIKES AND UNDERSTANDS. In every sales organization there are men who are going to reap the benefits from consistently following up NEW ACCOUNTS, radiating from old clients who are satisfied customers and who will cooperate in helping such a salesman extend his business. In the field of direct mail, the opportunity to inform this NEW PUBLIC, is likewise one of the best mediums to employ in building an ever increasing clientele of satisfied customers. As Mr. Jones pointed out, the opportunity is so much the greater today. For 16 years the securities business has hid its light under the proverbial bushel—there are 32,000,000 new people who can be added to our prospect list, 16,000,000 more who have passed on, and untold millions who have forgotten 1929.

"A lot of people who should have heard of securities and how easy it is to buy them—haven't." It's our opinion Mr. Jones is right—and that more and more progressive firms throughout the country will join with him when he says—"let's go forward—it's a new day!"

New York Stock Exch. Borrowings Decrease In Month of January

The New York Stock Exchange announced on Feb. 3, 1945, that the total of money borrowed as reported by Stock Exchange member firms as of the close of business Jan. 31 was \$912,994,801, a decrease of \$59,941,137 from the Dec. 30 total of \$972,935,938.

The following is the Stock Exchange's announcement:

The total of money borrowed from banks, trust companies and other lenders in the United States, excluding borrowings from other members of national securities exchanges (1) on direct obligations of or obligations guaranteed as to principal or interest by the United States Government, \$348,-

613,498; (2) on all other collateral, \$564,381,303; reported by New York Stock Exchange member firms as of the close of business Jan. 31, 1945, aggregated \$912,994,801.

The total of money borrowed, compiled on the same basis, as of the close of business December 30, 1944, was (1) on direct obligations of or obligations guaranteed as to principal or interest by the United States Government, \$412,500,688; (2) on all other collateral, \$560,435,250; total, \$972,935,938.

The Stock Exchange also included in its report a comparison of member borrowings for Jan. 1, 1944, compared with Jan. 1, 1945. They are: Jan. 1, 1945, direct obligations, U. S. Government, \$412,500,688; all other collateral, \$560,435,250; total, \$972,935,938; Jan. 1, 1944, \$234,215,073; \$448,558,470; total, \$682,773,543.

Post-War Problems in Their Relation to Securities

(Continued from page 619)

History making events have happened since our last meeting. Although it was beginning to take form at that time by the invasion of Africa, Sicily and Southern Italy, we have now reached, sustained and passed the turning point from defensive to offensive war, both against the Hun in the West and the barbarians of the Pacific in the East, and with Divine help we hope both enemies will have been completely subdued and peace shall have returned to our topsy-turvy world before we meet again next year.

Mr. President, the theme chosen for this convention is "Post-war Problems in Securities Matters," and you have honored my State by your invitation to discuss the subject. I should prefer to approach this subject from the angle of "Post-war Problems in their Relation to Securities," because every problem which we will be called upon to solve after the war will have its effect upon the issuance, marketing, distribution and sale of securities, and consequently upon the administration and enforcement of the so-called Blue Sky Laws of each State and the Federal Government, whether it be the problem of capital or labor, state, federal or international.

Transition Problems

After the war is over the country will not go through one simple transition—the transition from war to peace. On the contrary, it will go through a succession of transitions. The first decade after the war will be punctuated with transitions. It will be a period of major shifts in demand—a period in which economic stability will depend upon our success in offsetting decreases in demand for some products, with increases in demand for others. As the accumulated demand for goods subsides, we must depend for stability upon a rise in demand for industrial construction and residential building. Awareness of the great potentialities of our economy will help us keep our sights high; it will stimulate our confidence in our power to achieve it; it will help us retain and develop the spirit of pioneering and innovation—which is the greatness of America. And just what will these transitions be? No one can tell with certainty. The first, of course, is the establishment of a world organization to make and maintain a good and lasting peace, and the world knows from bitter experience that to make a good peace is more difficult than to wage a victorious war. To erect a world organization to preserve peace is a difficult, complex and technical business. Yet, in its potential effects on our future and that of our children it is the most important task ever faced in the history of civilization. Our leaders recognize this to be true, both Democrats and Republicans, as witnessed by the fact that the formation of such a world organization was not made an issue of the 1944 Presidential Campaign. And here, may I digress long enough to say it has been my experience in our relationship in the Association that no political party lines have been recognized and that we have worked together harmoniously in a common cause. Every man stands on his own footing and it matters not what his political affiliations may be. So, there must be a transition from the old power politics—balance of power of the past, to a complete world co-operation of the future.

Approaches to World Economic Recovery

There is an abundance of literature on the subject of World Economic Recovery, and in it two general points of view reveal themselves.

The first is the idealistic ap-

proach; those who see the world shattered into a thousand pieces and believe it our duty to put it together again, piece by piece, but on a greatly improved pattern. They suggest that we must see to it that other countries are placed under what we regard as democratic government, and that the standard of living of all peoples be raised and the differentials between theirs and ours be greatly reduced. Perhaps, after all, we are not yet strong enough nor sufficiently wise to reform the world immediately.

The other approach is more practical and realistic. These people maintain that potential forces exist even now in every country for its rehabilitation, and we only need to release these powerful affirmative forces. The farmer wants to till the soil, the artisan wants to fashion shoes or clothes or machines, the trader wants to trade. In every country there are groups of able and energetic men and women ready to restore the normal ways of life and add to its richness. What they need is not charity but opportunity. No people, no nation, can be handed a better life—they must work it out for themselves. Let us then strive in every way possible to assist in eliminating the obstacles to the initiative and enterprise through which alone the better life for these unhappy peoples can be achieved. Spokesmen for all parties, all faiths, in all parts of this country are today saying in chorus that after this war we cannot back away from international responsibilities as we did after World War I. We must see that these good intentions are not forgotten when the war is over and we turn with relief to the pursuits of peace. Time does not permit a full development of the gigantic part our own country can play in a world organized for peace, but may I suggest that each of us use our influence with our representatives in the Congress of the United States to work for the lowering of trade barriers, and for further development of our reciprocal trade agreements with other nations. The accomplishment of these two things will go far in maintaining peace and to advance the economic development of our own country. It is not easy for friends who are trading with each other to their mutual advantage to fall out and fight. We can no longer live alone. We must have world co-operation—and cooperation is a two-way street. We cannot accept the benefits of world trade without assuming the responsibilities of making it easier for other nations to trade with us.

Domestic Post-war Problems

Now, in order to have economic stability after the war, there are several domestic problems which must be solved. The first is the prompt payment of cancelled war contracts. After World War I the government took an average of three years to settle such contracts and then settled them at approximately thirteen cents on the dollar. Profits then had enabled business men to set aside funds for the future. This time, limits imposed on profits have not allowed many industries sufficient surplus to carry them through a long waiting period. If private business is to have the money to meet its reconversion costs, to provide jobs quickly, and to get started on a peace program, cancelled contracts must be paid promptly.

The second problem in the re-establishment era is disposition of surplus goods. It is estimated that the government now has on hand fifty billion dollars worth of equipment, supplies and materials. Disposition of this will have a terrific impact upon our economy unless intelligently handled. The

sudden release of this enormous quantity on the market would destroy the industry and replace the employment of workers otherwise kept busy making new products. Surpluses are the sword of Damocles over the heads of business men. There should be an orderly disposition of these surpluses, acceptable to both government and business.

Third, there is the disposition of government-owned industrial plants. The government has over thirty billion dollars in such plants and equipment, and the government should state its policy on what is to be done with them, so that business can go ahead and plan without threat of ruinous competition. These problems must be met before business can clear the way for post-war jobs. Nobody needs to be reminded that mass unemployment is the worst threat in our post-war economy.

It is estimated that when peace finally comes, there will be approximately nine million ex-service men and women, beside six million released from war industry, looking for jobs. The industrial states will have the most serious problem, as there will be fifteen people for each ten jobs available. Creating jobs after the war is necessarily the concern of private enterprise, if our present economic system is to continue. For full employment we must have about fifty-five million people at work with annual production of about one hundred and forty billion dollars. Industry says it can do the job, but industry must be encouraged by a tax rate which is not confiscatory; otherwise why should business men take the risk? It is pointed out in the Baruch-Hancock report that lower tax rates stimulate a higher volume of business and a higher national income, which will ultimately yield greater total taxes than high rates which depress business volume, employment and income. There must be adequate incentive to encourage risk and responsibility; otherwise dollars saved will not be dollars dared for backing new possibilities for new jobs, opening up new ideas, nor will the new ideas themselves be forthcoming. We must not be satisfied with the past; we must have a better future.

Eric A. Johnston, President of the Chamber of Commerce of the United States, in his new book, "America Unlimited," sums up the question succinctly when he states that while he is not an expert on taxes, he is an expert of sorts on job making. He finds our present tax system haphazard. "It is almost an accidental accumulation of imposts—one tax after another having been added, piece-meal fashion, and the whole tax structure needs to be revised." "Taxation," he says, "is a terrific power for destruction." We must also realize that it can be no less a terrific power for construction. The present tax structure must be revised and reformed to remove barriers to investment and to wholesome business enterprise. It can be—it must be—planned to make jobs, to coax savings and other capital out of hiding, into the active stream of productive investment.

Please understand that it is not my purpose to attempt to cast you into the "slough of despond," because the picture is not all dark. The widespread impression that former wars have always resulted in prompt collapse and stagnation is not correct. The Brookings Institution, in **Collapse Or Boom At The End Of The War**, points out that post-war patterns in the past have been about as follows:

Expect Prosperity To Get It

- (a) A few months of hesitancy.
- (b) A year or more of active busi-

ness. (c) A relatively short period of trade and financial readjustment. (d) A successful period of prosperity extending over several years. Whether we have collapse or boom at the end of the war largely depends upon us—the people. If people generally expect a post-war depression we are likely to have one, because then people will spendable funds will withdraw their purchasing power, refuse to make commitments and stagnation must result. If, on the other hand, people expect prosperity and act accordingly, current money incomes and funds from past savings will be put to work, thereby creating prosperity. Thus we have on our hands a technical job in both social and economic engineering. No amount of magic or sorcery will sustain a bridge which is grossly overloaded; the economic system is pliable, sensitive, and subject to the human will.

Our job is to state the conditions which will give the system a fair chance to deliver the goods and then create those conditions. We are aware of the large demand for certain consumer's goods and for many kinds of producers' goods that have not been manufactured in any volume for many months. We know about the tens of billions of dollars that have been saved by industry and labor and we know this will be available to finance, at least in part, the satisfaction of needs and wants that cannot be met now. New and modern plants and equipment will bring an enormous increase in our capacity to produce, and our skilled labor force will be unparalleled. A war torn world is waiting anxiously for the day of reconstruction and the re-establishment of normal life. Perhaps most important of all, American industry, labor and the consumer are acutely aware not only of the desirability of utilizing as fully as possible our enlarged productive capacity but also of the necessity to do so, if we would reap the benefits of our resources in a higher standard of living.

Create Prosperity Conditions

Yes, our job is to state the conditions which will give our economic system a fair chance to function properly, and then ourselves go forth and create these conditions. To do this we must abandon the road of riskless economy down which we are marching. Mr. John Clifford Folger, President of the Investment Bankers Association, in a recent address stated that approximately 60% of the invested assets in savings banks are in cash or government securities and only 40% in real estate mortgages and private enterprise securities, but in 1931 the ratio was 85% in private enterprise to 15% in government securities. In the commercial banking field only 30% is invested in assets related to private enterprise, as compared with 80% in 1920. Of securities registered with the Securities and Exchange Commission, and known to have been offered for sale, over 90% in dollar value are either bonds or preferred stocks. The private investor is also playing safe; he is crawling under the bed with the banks; he hesitates to take a chance and is letting his money pile up in the banks. If everybody plays safe, who is going to fight the big wolf of stagnation and depression? Where is the money coming from for expansion of private enterprise?

This riskless economy will not enable us to give employment and pay off debts. We must strengthen the machinery for distributing private enterprise securities, and our investment business must be allowed to make enough money to attract new blood. Our regulatory agencies should, without giving license to the swindler, take their foot off the punitive pedal which they have pressed so

heavily in recent years. Venture capital must be encouraged.

Must Encourage Investment

The people of this country have the capital needed for post-war development. The banks are overflowing with it, and it is said to be increasing at the rate of forty billion dollars a year. Investment firms must devise new and broader methods for the legal distribution of securities. Fundamentally, the instinct of the American is towards thrift and private business. He would like to establish his own business. He is irked by his idle dollars in the bank growing anemic from disuse. Let's put these idle dollars to work; get the ball in play; create the conditions to give our economy a fair chance.

I agree with Mr. Folger that in order to do this, we should streamline the securities laws to eliminate bottlenecks and encourage the free flow of investment capital. We should give the small investor throughout the country the same chance to purchase securities as the large and sophisticated buyer now has. Compulsory bidding and like regulations are hurting both the little investor and the little dealer. The little dealer is the one the small investor will patronize, and he should be encouraged to remain in business. We should correct the present system of taxation on venture capital. If continued after the war it will kill the goose that lays the golden eggs. There must be some relief from this so-called excessive double taxation—first the corporation's income and then the stockholder's income. Give capital that takes a chance a run for its money. We should eliminate this so-called capital gains tax. This will bring the large investor into the picture. He now has little or no incentive to in-

crease his income. We need the large investor in development of new industry.

Finally, let us strive to administer a good dose of optimism and faith in the future of our country. The trend toward riskless economy must be arrested. There is no such animal as "riskless" business, and our securities regulatory bodies should remember this when considering applications for the sale of stock in a new enterprise. It is not our province to guarantee that any particular business will pay dividends, or even be a success. We can only analyze the application, and if in our opinion the sale of the securities in question would not be fraudulent, nor work or tend to work, a fraud upon the purchasers, and if the enterprise is not founded on unsound business principles, then permit should issue. This is the only yardstick by which we can measure such applications. We are not prophets and haven't the power to look to the future as to the success of the undertaking.

Post-war Securities Regulation

As for our own individual problems as officers charged with the duty of administration and enforcement, they are going to remain largely the same in the post-war period, except on a greatly accelerated scale. The swindler, like the poor, is ever with us. He will come forth with new and streamlined schemes to initiate the unwary victim into the ancient order of suckers. Many good men and women will fall victim to his fantastic claims of fabulous profits, and there is ever present Barnum's "one a minute" bunch always ripe for plucking. We can never entirely eliminate the swindler; we can only hope to keep his activities at a minimum

by the exercise of eternal vigilance, and by educating the public to deal only with legitimate, registered dealers.

So it can be seen that the intelligent and successful solving of these problems, and other problems which are sure to arise, will have a direct relation to our post-war securities problem, whether we be an issuer or dealer, broker or investment banker, or one charged with the duty of enforcement. They are inter-dependent problems, and our economic success in the years to come depends upon just how they are solved. Economic failure or success in the post-war years is entirely up to us and we must deal with the problems intelligently. We must be neither conservative nor radical in our thinking or our acts, but always liberal.

And now, Mr. President, upon this note of liberalism, I quote Dr. Walter J. Matherly, the able Dean of the College of Business Administration of the University of my own State of Florida, in his masterly discussion of the subject "Post-war Development of Private Enterprises":

"In post-war America an ever increasing number of liberals will be required. Liberals occupy a position midway between conservatives on the right and radicals on the left. Conservatives, on the one hand, believe in things as they are or as they have been; they resist change; they oppose progress; they are content with the past and desire to see that the past continues unchanged. Radicals, on the other hand, want to ignore the past, abolish it, to break with it, to cut it off; they reject the old—all of the old; they do not see progress as a continuous process; they see it as

something which comes in jerks or in series of revolutions. Liberals, however, accept the principles of natural change in man and things; they hold that the new grows out of the old and that it adds itself to the old, but that it does not sever connections with the old. They agree with Kallen that 'the persistence of the old is just as ineluctable as the influx of the new.' In the post-war economy of America, therefore, there will be no room for either conservatives or radicals. There will be room only for liberals—liberals who want to add the best of what we have had, and thereupon erect a finer superstructure than anything that exists in the present or anything that has ever existed in the past."

Senate Confirms Mahaffie And Alldredge to ICC

The Senate on Jan. 18 confirmed the nominations of J. Haden Alldredge and Charles D. Mahaffie, both of whom were named for re-appointment as commissioners of the Interstate Commerce Commission by President Roosevelt on Jan. 3. Under date of Jan. 3 Washington advices to the New York "Times" said:

"In nominating Commissioner Mahaffie the President ignored demands from Southern members of Congress for the substitution of a Southerner who would be sympathetic to the efforts of his constituents to end what they regard as freight rate discrimination.

"By nominating Mr. Mahaffie the President left it to members of Congress to decide whether or not they want a different Commissioner."

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Due February 1, 1971

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February 6, 1945.

Making Democracy Effective

(Continued from page 618)
government planners righteously laying down the law to, and collecting taxes from, an obedient and subservient populace. There is so much that appears on the surface to justify moving in that direction. If people don't want to send their children to school, they must be made to send them—we have compulsory education. If they don't want to avoid smallpox, they must be made to avoid smallpox, and we have compulsory vaccination. Some such uses of force we know are necessary in order to protect the rest of us. But—if people don't want to stop drinking alcohol, they must be made to stop drinking alcohol—and we have prohibition. If people don't want to grow the right crops, they must be made to grow the right crops—and we have crop control. It is perilously easy to call upon government to enforce our own wishes on other people and to think of government control as being the best way to make other people behave. When we get in the habit of doing that we are undermining democracy.

Closely allied with our native dangerous reformers are the equally high-minded immigrants and the children of immigrants who have been brought up not only with very little understanding of what democracy has stood for in this country but also with carefully cultivated cynicism towards those of us who try to tell them about it. Such people interpret America in European terms. They want to destroy the old order here because they distrust the old order in Europe.

Then of course there is a third group to which almost all of us have unfortunately belonged at one time or another—good loyal Americans, who believe that government should serve all the people fairly, but who pull every wire to get special privileges, special perquisites, special legislation, to favor our own group at the expense of the people as a whole. Whenever we join selfish special pressure groups, we also destroy democracy.

The intentional enemies of democracy, the avowed totalitarians, are very few in number, but they are cold-blooded, unscrupulous, clear-headed, and skilful; and they infiltrate idealistic groups. They persuade the sincere reformers to do their destructive work for them. They encourage minorities to demand more and more special privileges. They furnish the cohesive force for apparently uncongenial political groups.

That is what has been happening with quietly accelerating speed in the United States. The war has hurried up the process; for the war has made dictatorship attractive to many people. In a war a country must go totalitarian to some extent. We can't fight a war with volunteers; the only fair method is the draft. We have to take measures to fix prices and wages; we have to levy taxes that in some cases are confiscatory. In war the whole nation has to go under orders in very many things.

For the moment, our whole objective is to carry through and win the war, but we must give sober thought to the direction in which we shall be moving when the war closes. The post-war problems will be complex and we are already committed in advance to many controls. Both parties in the autumn election committed themselves to a floor under agricultural prices. Certain of the inflation price controls and certain types of rationing will continue at least for a time. National and international controls over the prices and production of some basic commodities are planned.

Money and Banking Controls

We are pretty well committed to the control of interest rates at low levels. Rises in interest rates used to be one of the natural checks to over-expansion of credit. If rates are fixed by government, and that seems hard to avoid in view of the size of the debt, there are likely to be other controls such as the continuance of control over consumer credit, and over security and other loans. We shall thus have increased regimentation of credit.

The fundamental problem which we all face in the post-war period is the kind of government and country we want. The danger is that unconsciously and by the force of circumstances we shall be influenced to accept the kind of government we don't really want.

We may as well confess that the banker is already to a considerable extent in the hands of the government. More than half of his assets are in government securities. Other assets are guaranteed by the government, such as V and VT loans, CCC loans, and FHA mortgages. Our deposits are guaranteed by a government insurance corporation. Still more proposals are before us for a guarantee of commercial loans and for a guarantee of veterans' loans.

These forms of guaranteed credit are attractive because they remove the risk from banking and it would be easy for each of us to sit back and become a kind of glorified slot machine. This is well on the road to socialized credit. It moves in the opposite direction from democracy and enterprise. It is a kind of opiate that dulls initiative.

The farmer is in exactly the same fix. Guaranteed farm prices inevitably mean government control over production. If the government is to guarantee the price, it will tell the farmer what and how much he may plant and how much he may harvest. Since this price and production will be determined by political rather than economic reasons, the long term results are usually unfortunate. I call to witness simply the loss of a large part of America's markets for export cotton.

The educators also are putting their necks in the noose in asking for grants of Federal funds for education. They say they want these funds granted without any Federal control. That sounds like eating your cake and having it too.

The housing people want Federal money in large blocks—also without control.

Guaranteeing Jobs

The latest idea for curing all the country's economic diseases is the plan to have the Federal Government guarantee 60,000,000 jobs. How can they do it? By spending and lending money—and it would take lots of it. But the rub is that the money has to come from somewhere and there are only two places—borrowing and taxes. Continued borrowing means inflation danger and that means continued control over prices and wages. Taxes mean the stifling of enterprise and that means the government has to employ still more people itself and interfere still more with business. It's a first-class plan for enlarging the bureaucracy and leading us far down the road to totalitarianism in which the state owns all business.

Most of the advocates of these plans are thinking of their own interests—not of the long distant results, but the results will follow just as surely as though they were the object sought.

All our experiences shows that state socialism is the opposite of

democracy. That was true in Italy and is true in Germany and Russia. In a democracy the supreme goal is the worth of the individual—his freedom to live his life and make his own choices.

The methods of Hitler are compulsion and lies. The Gestapo is supplemented by a perverted emotional mass appeal. The result is to rob the individual of dignity and freedom of choice.

The method of democracy is persuasion, education, the appeal to reason, integrity in government which brings confidence.

What Bankers Should Do

What do we do about all this? We can't turn the calendar back to the good old days. It won't do any good just to fulminate against the trend.

The first thing is for each of us, in whatever walk of life he is, to do his own job better and lessen the excuse for the government to be called in to take over. We bankers are trying to do this in our loan policies, especially our loans to small business and veterans.

Second, we must pay more attention to political questions and their relation to us. It will no longer do to send just anybody to Congress—its powers are too great. We must try to get good people into Congress and into the administration of government also. We ought to pay them more.

Third, each business ought to have people whose main business is working with government. It is now a regular part of any business. We bankers have an agency for this in the American Bankers Association and it is operating effectively. Its effectiveness and that of other such organizations depends on two things: Having the facts and having the right point of view. I have sometimes spoken of our secret weapon: we will ask the Congress only for what we believe is in the public interest. If every one followed that rule we should have a better country.

The ferment of today about the future of this country is more wholesome than an unimaginative longing to return to normalcy. It is the ferment of progress. But it will boil over if it is not watched. The French Revolution became the dictatorship of Napoleon.

Inevitably we shall have more government than we have had before. We have learned some of the things government can do—just as we did with the Federal Reserve Act. Some of these new things are wholesome. But the price of liberty—of keeping the stream from becoming a flood to drown out our democracy—is vigilance.

That this is not just one man's fear let me quote from a wise old Swedish professor who has recently died—Gustav Cassel. He lived, remember, in a country which has tried many social experiments—many considered successes: "The leadership of the State in economic affairs which advocates of Planned Economy want to establish is, as we have seen, necessarily connected with a bewildering mass of governmental interferences of a steadily cumulative nature. The arbitrariness, the mistakes and the inevitable contradictions of such policy will, as daily experience shows, only strengthen the demand for a more rational coordination of the different measures and, therefore, for unified leadership. For this reason Planned Economy will always tend to develop into Dictatorship."

"What stands to be lost is nothing less than the whole of that civilization that we inherited from generations which once fought hard to lay its foundations and even gave their life for it."



A Report to the Public by JOHNS-MANVILLE

Highlights of 1944—third year
of wartime operations

★

The public has a vital interest in knowing how well industry is doing its job in these critical war days.

Is industry continuing to carry its great share in the fight for victory? . . . What financial provision is being made for jobs in the future? . . . How much is paid to Government in taxes? . . . How much to employees? . . . To stockholders? . . . Is anything left for future needs?

An authoritative source of facts concerning these and other questions is provided by annual reports of the thousands of companies which constitute American business.

Because we believe the people want such information, Johns-Manville—as a typical American company—is again reporting not only to its stockholders and employees, but also to the public.

We publish below highlights of our annual statement as a report on the progress we have made in 1944.

Total Income	\$101 million
For all costs (except those shown below)	48 million
To employees for salaries and wages	39 million
To government for taxes	9 million
To stockholders in dividends	2 million
Leaving in the business	3 million

- ★ For the third successive year, wartime production as measured by sales exceeded \$100 million. This compares with \$62 million in our peak year of peacetime production.
- ★ Earnings after taxes were 5 1/2 cents per dollar of total income.
- ★ Wages and salaries were 38 1/2 cents per dollar of total income.
- ★ Planning committees continued to analyze basic operations of the business and to project new plans and activities which will assure maximum war efficiency as well as new and improved operating methods and products for the years ahead.
- ★ The Fund for Deferred Expenditure was increased to \$14,022,499. It will supply part of the capital necessary for post-war expansion, and help provide jobs for our men and women now in the armed services when they return.
- ★ Taxes were 9 1/2 cents per dollar of total income. They were equivalent to \$10.93 per share of common stock, or \$714.55 per employee.
- ★ 1944 production was accomplished in the face of severe manpower shortages. There were 13,000 employees at the end of 1944, compared with 14,100 at the end of 1943—a loss of 1,100.
- ★ Continued excellence of war production was attested to by additional awards of the Army-Navy "E" at two factories and at the Kansas Ordnance Plant, a Government-owned bomb- and shell-loading plant built and operated by Johns-Manville.
- ★ At the end of the year, 4,518 J-M men and women had entered the armed services of the United Nations. Sixty-one had lost their lives on active duty.

As we enter the fourth year of wartime operations, we renew our pledge to let no consideration swerve us from the task of working for victory to the full extent of Johns-Manville's ability to produce.

Lewis H. Brown

PRESIDENT, JOHNS-MANVILLE CORPORATION

These are a few of the products coming off the Johns-Manville production lines: Insulations for ships, steel mills, synthetic rubber plants and other vital war industries; packings, gaskets, brake linings for war machines; building products for war construction; Celite products for camouflage paints; asbestos fibre; bombs and shells.

Those desiring more complete information should refer to a booklet containing the formal Annual Report to Stockholders which we will be glad to furnish on request. Address, Johns-Manville, 22 East 40th Street, New York 16, N. Y.

steady. Before the Civil War it was chiefly owing to our failure to build iron vessels with steam engines, but later a principal reason was our inability to compete with heavily subsidized foreign lines and the unwillingness of our Government to provide adequate subsidies. Thus it might be wiser to accept quotas for international civil aviation to begin with and avoid, so far as possible, competition that is likely to end in subsidy races in which the past we have been bested.

However, it may be argued in favor of the American policy of competition that it is what England adopted as her general foreign trade policy in the 1850's when she had an industrial supremacy somewhat similar to our present aviation supremacy. She maintained that policy until about a decade ago when she finally changed to a system of high tariffs. Thus both Britain and the United States are preaching economic policies for their international civil aviation that are inconsistent with their past practices. But perhaps that fact is more interesting than it is persuasive.

A stronger argument for competition is the well known economic one that it is most likely to produce the best service at the lowest price. That is how economic progress is made. Government chosen and regulated monopolies have less incentive to improve their methods and lower their fares. We should consider very carefully whether we want international air service limited by quotas. Similar international schemes for pooling the production and marketing of sugar, rubber, tin and copper have been tried and been severely criticized. So has our own AAA program which is somewhat analogous.

The Escalator Clause Compromise Nearly Succeeds

Canada early assumed the role of compromiser between the mother country and the United States by proposing what was known as the "escalator" clause. This required the United States to agree to the establishment of quotas at the outset on major air routes. For example, we would begin by sharing the North Atlantic run on a 50-50 basis with Britain, thus preserving her prestige in world economic affairs. But the "escalator" idea also required Great Britain to concede that if her planes consistently did less business than ours—if they operated below 65% of capacity and ours carried more than that—then her quota would be periodically reduced and ours increased. This would never be carried to the point of her complete elimination, however. Both the British and Americans accepted this working compromise and began dickering over the amount of the quotas on various world air routes. Our own commercial aviation company heads complained that Berle had needlessly sacrificed a strong position. However, Berle felt that a general agreement was more important for world peace and progress than exploitation of our momentary advantage. At least he felt that way to a certain extent, but, as will be seen, there was a limit beyond which he would not go.

The "escalator" clause idea came very close to reconciling the American and British views and making the air Conference an outstanding success. But at the last moment the delegates failed to agree on their interpretation of the fifth freedom as it applied to the "escalator" clause. The fifth freedom, it will be recalled, was the freedom to pick up and deliver traffic at intermediate points along world air routes. For example, on an air route from New York to Warsaw via London and Amsterdam, we would be permitted to deliver an American cargo in London, pick up an English one there and deliver it in

Amsterdam and pick up a Dutch cargo and deliver it in Warsaw. Both sides agreed to that, but the English refused to let the intermediate tonnage be counted in determining quota changes under the "escalator" clause. To illustrate, the British maintained that if our share of the New York to Warsaw traffic was 50%, it could be increased only if our planes were consistently "full" of cargoes loaded in New York and not unloaded until the planes reached Warsaw. We could not increase our quotas merely because our planes were loaded between New York and London, then emptied and reloaded for Amsterdam, emptied again and reloaded for Warsaw. We insisted that these intermediate cargoes should be counted. The English countered that to do that would give us a great advantage over the small nations who would gradually be squeezed out of the short haul business. Britain's attempt to line the small nations up on her side did not succeed, for they seemed more interested in obtaining early and adequate air transportation than in who provided it. Most of them wanted the Canadian compromise with the United States' interpretation of the fifth freedom. The English complained that our introduction and interpretation of the fifth freedom was a last minute thought and we replied that their refusal to accept it was a last minute change of mind. Feelings, though kept under control, were bitter.

When it became apparent that the English delegation would make no further concessions on the fifth freedom, Berle and his delegation dramatically announced their complete abandonment of the quota idea and the "escalator" clause compromise and their return to the original American contention that international civil aviation should be on a free and competitive basis. For this Berle was enthusiastically applauded by American air transport company heads who felt sure that our share would be larger without quotas. They also thought that the appointment of one chosen company to operate each route would be less likely to occur. Since the chosen instrument policy would prevent most of them from participating in overseas transportation, they opposed any world policy likely to cause its adoption here.

What We Salvaged

In order to salvage as much as possible from the now half wrecked Conference it was proposed that two sets of freedoms be drawn up to which as many as wished might adhere. One list contained only the first two freedoms; the other included all five freedoms. Our refusal to be bound by quotas necessitated the lumping together of the last three freedoms. By mid-December, 22 delegations had agreed to grant the first two freedoms and as many more were expected to adhere later, while by mid-January 19 were willing to grant five freedoms. However, when Britain granted two freedoms, she at first excluded the right to land for refueling in Newfoundland which is a rather vital stopping place on the shortest route to most of Europe. Of the 19 nations signing the five freedoms pact, practically all were our Latin American neighbors: the only European nation was Sweden. Nations agreeing to the five freedoms were in some cases keenly interested in those agreeing to two freedoms, for that might open up more direct air routes. Flying over such nations would be permissible even though pick-ups and deliveries were barred.

The question naturally arises of how much better off we are now than we were under the old "closed sky" rules. The answer is that five freedoms of the air will prevail in many parts of North and South

America. Special permission will no longer be necessary to fly over, or land for refueling in, a number of European nations which have agreed to two freedoms. The way is open to increase the number of nations in both categories and undoubtedly more countries will take advantage of the opportunity as time goes on. But in most cases permission to enter by the air or fly over nations can only be obtained as a result of diplomatic negotiation. We may expect a great buzz of negotiating of bilateral agreements in the next few months. We have already arranged for trans-Atlantic air service to Spain, Sweden and Iceland, using bilateral agreements. Other similar agreements will doubtless follow, for we are in a strong position to obtain concessions, probably in a stronger position now than is Britain.

Other Accomplishments of the Conference

It is very possible that the Chicago Conference will be remembered for other achievements than defining and attempting to inaugurate the five freedoms. If the home governments approve the 95 articles of the document known as the Convention of International Civil Aviation which the delegates approved, much will have been accomplished. The Convention provides that landing and airport lights, radio signals, aircraft markings shall be standardized. It permits foreign aircraft not making scheduled stops to fly into or over any signatory's territory and make stops for non-commercial purposes without securing prior permission. In other words, the way is wide open for tourist flying. However, international aircraft must carry radio transmitters, certificates of registration and airworthiness and a log book. The Convention provided also for the establishment of a world organization known as the International Civil Aviation Organization, already called ICAO, which will tie in with the Dumbarton Oaks proposal for a General International Organization (see Chapter V, Sec. B, No. 7 of G.O.). This ICAO is to have an assembly in which all participating nations will be represented and a council of 21. A seat on the council is being saved for Russia. ICAO does not have power to fix rates, establish routes or determine quotas; it may only give advice and make recommendations. However, it may suspend a member by two-thirds vote for violating the Convention. If 26 nations signify their adherence to ICAO, it will go into effect after the war. During the period between the war's end and the adoption of ICAO, an interim organization with similar powers may be set up if enough nations agree.

Air Conference One of Several Recent Disappointments

In the light of the above, it can hardly be said that the Conference was still-born but it was a disappointment. Because of what it failed to accomplish, international civil aviation's growth in the next few years will undoubtedly be less rapid than it might have been. Ominous are the facts that Russia refused to attend, Great Britain and the United States held widely opposite views and just a little more concession might have produced a reconciliation of those views. Set these alongside the recent bickerings over petroleum, copper and cocoa and add the apparent international rivalries in Poland, Italy and Greece and the outlook becomes dismal indeed. No wonder the Germans still hope for a split between the Big Three and a negotiated peace. Yet so long as no one loses his head, we can, and it is to be hoped, we shall find a solution to most of these problems. Another air Conference, adequately prepared for this time, might be a good beginning.

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By BRUCE WILLIAMS

The direction of the "straw in the wind" represented by the Grey North by-election result can now be analyzed. On the surface a significant Progressive-Conservative gain has been registered. But on closer observation we find that the successful candidate is a former local Mayor in a rural community who, in the 1940 Federal election, ran as an Independent Liberal. Furthermore, Ontario is the last Conservative stronghold.

The poor showing of the C. F. which although represented by a solid personality in the form of an Air Vice-Marshal, only goes to confirm the waning trend of this movement which possibly reached its zenith following the striking C. F. successes in the last Ontario election.

As a pointer, therefore, to the trend in the forthcoming Federal election, this result is not of paramount importance. On the other hand, it can have a decided bearing on the timing of the call to the country. The probability of any deferment within the scope of established parliamentary procedure now seems ruled out and an early announcement of a definite date can be expected.

As a matter of conjecture, it would appear that the period immediately following the next Victory Loan in May could very well have favorable consideration.

In view of the imminence of political events of a possibly critical nature, the continued unruffled calm and strength of the security markets is perhaps somewhat surprising. However, as already pointed out, other factors for the moment are strongly predominant.

In the first place, the current accentuation of the downward trend of the interest curve is having a powerful effect on all bond prices. This influence is supplemented in the case of Canadian external securities by an increasing shortage of supply from Canada.

Thomson & Co. Opens Branch in Toronto

TORONTO, ONT., CANADA—Thomson & Co., members of the Montreal Stock and Curb Exchange, and Toronto Stock Exchange, will open a branch office in Toronto at 38 King Street West, as of March 1. Col. Carson McCormack, who will acquire the Toronto Exchange membership of Henry H. Rath, a partner in the firm, and Andrew J. Davis will be admitted to partnership.

The firm's main office is located at 355 St. James Street, West, Montreal.

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The Significance of Public Debt

(Continued from page 619)

experience in the growth of its national debt over a period from the early 1700's to the 1930's is missed by many observers. In the early years we do not have a continuous series, but the major increases in debt are all associated with war periods. In each of these earlier war periods the debt nearly doubled (1739-48, up 60%; 1756-63, up 75%; 1775-81, up 71%); during the Napoleonic Wars (1793-1815) it increased nearly 250%, and during World War I it rose over 1,000%.

Some interesting commentaries on this growth in British public debt are made in the nineteenth chapter of Lord Macaulay's "History of England," published in 1855, from which the following excerpts are taken:

At every stage in the growth of that debt the nation has set up the same cry of anguish and despair. At every stage in the growth of that debt it has been seriously asserted by wise men that bankruptcy and ruin were at hand. Yet still the debt went on growing; and still bankruptcy and ruin were as remote as ever. When the great contest with Louis XIV. was finally terminated by the peace of Utrecht (1713), the nation owed about fifty millions; and the debt was considered not merely by the rude multitude . . . but by acute and profound thinkers, as an incumbrance which would permanently cripple the body politic. . . . Then came the War of the Austrian Succession; and the debt rose to eighty millions. Pamphleteers, historians, and orators pronounced that now at all events, our case was desperate. . . . Soon war again broke forth (1756); and, under the energetic and prodigal administration of the first William Pitt, the debt rapidly swelled to a hundred and forty millions. As soon as the first intoxication of victory was over, men of theory and men of business almost unanimously pronounced that the fatal day had now really arrived. . . . David Hume, undoubtedly one of the most profound political economists of his time, declared that our madness had exceeded the madness of the Crusaders. . . . Better for us to have been conquered by Prussia or Austria than to be saddled with the interest of a hundred and forty millions. . . . Adam Smith saw a little and but a little further. He admitted that immense as the burden was, the nation did actually sustain it and thrive under it in a way which nobody could have foreseen. But he warned his countrymen . . . the limit had been reached. . . . The attempt to lay a portion of the load on the American colonies produced another war (1775). That war left us with an additional hundred millions of debt. . . . Again England was given over; and again the strange patient insisted on becoming stronger and more blooming in spite of the diagnostics and prognostics of State physicians. . . . Soon, however, the wars which sprang from the French Revolution, and which far exceeded in cost any that the world had ever seen, tasked the powers of public credit to the utmost. When the world was again at rest and the funded debt of England amounted to eight hundred millions. . . . It was in truth a gigantic, a fabulous debt; and we can hardly wonder that the cry of despair should have been louder than ever. . . . Yet . . . the beggared, the bankrupt society . . . proved able to meet all its obligations. . . . Those who so confidently predicted that

she must sink, first under a debt of fifty millions, then under a debt of a hundred and forty millions, then under a debt of two hundred and forty millions, and lastly under a debt of eight hundred millions, were beyond all doubt under a two-fold mistake. They greatly overrated the pressure of the burden; they greatly underrated the strength by which the burden was to be borne.

There is no denying the fact that over the past two centuries British national debt rose tremendously without the resultant economic disasters which were so generally feared by contemporary observers of the times. The important point, however, for us to learn from this British experience—and one which has been missed by many who like to point to the British record—is that each successive increase in the debt was matched by a tremendous growth in economic activity and private enterprise.

Growth of U. S. Debt

For the same period some of the data on the growth of British industry and trade for the early years is sketchy, but it is sufficiently complete and accurate to illustrate the basic truth that increasing debt need not be ruinous if it is accompanied by a commensurate growth in the production of economic goods and services. There was a tremendous upsurge in the cargo tonnage cleared, pig iron production, and coal production. Growth in population was much less than economic growth. This difference tends to emphasize even more the dynamic nature of the economic growth which took place in Britain during this period. Clearly, the lesson to be learned from British experience is not that increasing debt is harmless, but rather that it need not prove unduly burdensome or ruinous if it is paced by a proportionate or bigger growth in economic productivity.

The debt record of the United States covers a shorter period than that of the British, but in its broad outlines it follows the same general pattern of development. Beginning in 1850 the public debt of the United States, Federal, State and local combined, has risen from less than a half billion dollars prior to the Civil War—most of this State and local debt—to approximately \$245 billion at the end of 1944, the major increases, as in the case of Britain, occurring in times of war.

Not only in dollar amount but in proportion to its previous level, the increase in our public debt in the past twelve years exceeds that of any other period in American experience. But it is important to bear in mind that the burden of debt is relative to the productivity of the debtor, and as we all know, the capacity of America to produce is the marvel and the envy of the world. The development of our economic resources and productivity has proceeded at a tremendous pace over a long span of years as is evident from the rapid increases which have occurred in national wealth, national income, and industrial activity. In the past five years America's ability to produce has been demonstrated anew and the crux of the matter is that there is no way in which the economic problems of America can be solved as well or with greater assurance of permanency than by bending our efforts to the maintenance of a high and ever-expanding level of economic productivity.

Inflation Danger

The danger of wild inflation has been a lively topic of discussion

for years as we have piled one budget deficit upon another and financed those deficits by placing a large part of the increased debt in our commercial banks with a consequent expansion in money supply. But the fact of the matter is that we haven't had price inflation yet, as is best proven by the relatively moderate rise in our commodity prices during recent years. While the full explanation lies in a complexity of economic relationships, the key reason is that American productive ingenuity and American private enterprise have combined to bring forth a deluge of goods and services. In the war period when the production of civilian goods was necessarily curtailed, reasonably effective price control devices have been applied. However, in the post-war period when price controls will be necessarily less effective, our best protection against the threat of price inflation—one might almost say our principal safeguard—is to free the forces making for expansion in private enterprise so that our vast potentialities for increased production of goods are fully exploited. We possess the ability to match the greatly expanded money supply with a larger and larger supply of goods and services, and if we do so the risk of uncontrolled inflation will be remote.

It is frequently said that we need not worry about the debt because we owe it to ourselves, but this idea can be at best no more than a half truth, for so rapid and great an increase in our debt as has occurred in recent years cannot fail to leave us with serious and pressing financial problems at war's end. Our national wealth and income will have undergone a material redistribution, much of the cost of the war will have been "monetized" so to speak by the sale of government securities to the commercial banks, and many real disruptions to our normal economic processes and relationships will have occurred. The ultimate consequences of an increase in debt such as this nation has experienced will depend upon the wisdom of our decisions and terminating the economic and political policies to be followed in the post-war periods. But in certain respects the economic signposts appear relatively clear.

It is obvious, for example, that relatively high taxes are inevitable for an indefinite but prolonged period ahead. In all probability, the costs of servicing the Federal debt in the post-war period will alone exceed our largest peace time budget prior to the 1930's. And there is scant reason for doubting that many of the other costs of government in the post-war period will be well in excess of their former peace time amounts. Clearly this means that government revenues must be held at high levels and as a corollary that our national income must be maintained well above our best pre-war performance—not alone in dollars, but in terms of physical production. Lower rates of taxation will be more feasible if our national income is high than if it is low, for the burden of taxes is a function not only of rate but of ability to pay. It seems clear, therefore that in drafting our tax laws for the post-war period the emphasis should be upon the objective of unleashing capital investment into productive enterprise so that our economic organization can function effectively without the stimulant of deficit spending. The real burden of servicing our post-war debt would then be reduced.

Investment Effects

In the investment field the results of our vast expansion of public debt will be felt in many

ways for a long while ahead. At the peak of the Federal debt, following the close of World War I, United States Government obligations amounted to a much smaller proportion of the total outstanding volume of so-called "investment grade" securities than will be the case when victory is ours this time. According to estimates prepared under the financial research program of the National Bureau of Economic Research, the total of outstanding corporate bonds of Baa or better quality amounted to roughly \$16.5 billion in early 1920 and \$15.5 billion in mid-1944. United States Government debt reached a high of approximately \$26.6 billion in 1919 as compared with \$232 billion at the close of 1944. In other words, the Federal Government debt comprised about 60% of the combined dollar volume of United States Government and "investment grade" corporate bonds at the end of the last war, whereas, the corresponding percentage now is already over 90%. Hence, it seems clear that since United States Government obligations will be not only pre-eminent in quality, but dominant in size of market in the post-war period, they will continue to be, as they now are, the principal outlet for the funds of institutional investors.

The size of the nation's debt confronts the authorities with a colossal problem, for they are under the necessity of managing a Federal debt that may well approximate from 11 to 13 times as much as that with which we closed World War I—and of doing this with respect to a debt which has been financed at very low rates of interest compared with those at which the last war was financed, and which in distribution as to maturity and class of holder leaves much to be desired. This clearly means that financial statesmanship of the highest order, both in wisdom and courage, will be required.

In the very size of the debt there is some risk that restrictions may be placed in the investment freedom of our private financial mechanism. Management of a debt of \$300 billion can—unless conditions are propitious—be so difficult that there may be a temptation to follow the easy course adopted in certain other countries involving varying degrees of government control over the investment operations of our financial institutions. As a safeguard against any such tendency here, it is to be hoped that by concerted effort of the financial community and the fiscal authorities an increasing proportion of the debt can be placed in the hands of the public on a permanent investment basis so that resort to radical devices of control can be avoided. That an opportunity exists for placing a greater proportion of the government debt in the hands of our people is clear from the fact that vast accumulations of savings have thus far been only partially tapped. According to figures released by the Securities and Exchange Commission, liquid savings—currency and bank deposits—in the hands of individuals and unincorporated business have accumulated to the total of approximately \$44 billion in the period since 1939. It would be a salutary influence if in future offerings of government securities a greater proportion of the funds held by individuals could be drawn into investment in such securities and less reliance were necessary upon subscriptions based directly or indirectly upon commercial bank credit.

For the many problems connected with our greatly expanded public debt, there is no easy panacea. It is important to recognize, however, that a higher and higher volume of production represents the nearest thing to a single solution of these problems and that all of them can more easily

Extension of Limited Mail Service to Belgium

Postmaster Albert Goldman announced on Feb. 3 information has been received from the Post Office Department, Washington 25, D. C., that letters not exceeding one ounce in weight are now accepted for mailing to civilians in Belgium.

The postage rate is 5 cents.

Heretofore the service was restricted to non-illustrated postcards on business, personal or family matters.

Registry, money order, airmail and parcel post services are not yet available.

Enclosures of currency, checks, drafts and securities continue to be prohibited.

Communications on business as well as personal matters may be sent. However, financial or business communications must be restricted to the ascertainment of facts and exchange of information except when they constitute instructions relating to support remittances and to the protection, maintenance and management of property interests in Belgium or are documents regarding patents, copyrights and trade-marks.

Canadian Securities

(Continued from page 637)

the war, there has been no raising of new money in this country.

Consequently, during the past week there was no departure from the overall pattern of strength with a restricted turnover. Nationals were again in popular demand and there was a growing inquiry for the less attractive direct Dominions. As a result of a broadening interest Montreals made further headway and there was considerable activity in Abitibi. Albertas held firm at their recently established new high level, and general market opinion is beginning to share the view that it is likely that the Alberta Government will make an acceptable offer direct to the bondholders and thus arrive at a satisfactory solution of this long outstanding problem.

Internal issues shared the strength of the general market and free funds appreciated to 9½% discount. In this connection, bearing in mind the world-wide trend towards lower interest rates, it might now be opportune to consider the possibility of a reduction of the customary 3% coupon on future Dominion of Canada internal issues.

With regard to the possible future course of the market, the present firm trend is so well established that political developments in connection with the forthcoming Federal elections, unless of a sensational and unexpected nature, are likely to constitute a subordinate factor. Moreover, the recent upsurge in domestic issues has not yet been fully reflected in the Canadian bond market in this country.

be dealt with in an environment of high employment and high production, i. e., of business prosperity. In proportion as high production is realized, the real burden of the debt will be reduced and the threat of inflation and of financial disruptions growing out of the war will be lessened. In proportion as it is realized, the confidence of the nation in the integrity of its debt and its money will be assured.

The essential elements of a program which will bring real prosperity to the country is a story in itself, but if the maximum production is to be obtained, then we clearly must have a peace time environment in which the relations between business and labor and the attitude of government toward each is such as to unleash the demonstrated driving force of our private enterprise system.

International Air Trade and Travel Routes of the Future

(Continued from page 623)

submarines stalked the sea lanes, they drove their human prey into the air lanes. This war experience does not represent theorizing; it is the practical laboratory test which proves the case.

International Air Routes

Alert to the very great possibilities of expansion and growth in international air trade and travel, the Civil Aeronautics Board in 1943 consulted extensively all aeronautical interests, twice soliciting their views, as to the international air transportation routes which the United States should seek to operate in the future. After further consultation with all interested governmental agencies, and with the approval of the President, the Board made our proposed world routes public last June. If existing United States air routes established before the war are included, there are 20 world routes in all which were so announced. They do not include any routes, existing or prospective, between the United States and the contiguous territories of Canada and Mexico. These routes reach every continent and important region of the world. Europe with approximately 25% of the world's population and the important areas of east Asia, south Asia and southeast Asia, including approximately 47% on the world's population, are reached by these new routes. Generally speaking, these routes are based upon commercial considerations. They represent the Board's judgment as to the best routes for airborne trade and travel prospects from and to the United States. With minor exceptions they constitute reasonably direct routes out from and back to our homeland.

About 100 applications were filed by American citizens to operate international routes. The Board has divided the world into four areas for the purpose of conducting hearings on these applications and reaching decisions in the cases. All applications in each area have been consolidated in a single proceeding. The areas are (1) the Latin American, (2) the North Atlantic (reaching eastward as far as Calcutta, India), (3) the South Atlantic, and (4) the Pacific, including Alaska (and reaching westward as far as Calcutta, India), and Australia. Hearings have been held in the Latin American, North Atlantic, and South Atlantic proceedings. Under the law, when the Board has reached its decision after a hearing in these international cases, that decision is submitted to the President. The issuance or denial of each certificate is subject to his approval.

The Board realized, of course, that many of the applications, and most of the additional proposed routes which were not in operation before the war involved air transportation to and through the air space of nations with which the United States currently has no operating air arrangements. But in setting these cases down for hearing and decision in a timely manner, the Board was following the necessary statutory requirement that findings of public convenience and necessity should be made as a result of hearings. This action by the Board was designed to permit the prompt inauguration of additional air carrier services abroad when time and conditions are appropriate. Obviously no services can be inaugurated on any of the new routes unless and until suitable arrangements have been concluded with the foreign nations concerned.

It is, of course, clear that after as well as before the war there will be many foreign air carriers

operating in the international field. Under existing law, no foreign air carrier can operate to a United States point without a permit issued by the Civil Aeronautics Board after a public hearing and after approval by the President. Although there may be exceptions to this general rule, these hearings upon applications for permits by foreign air carriers would normally take place following the negotiation of suitable air transportation arrangements with the country whose air line seeks such a permit.

We are approaching, therefore, a period of great importance to this country in that the decision period is now almost upon us with respect to the applications of American flag carriers. These applications will require the determination of many important issues such as the question of whether there should be more than one American flag carrier in the international field; if so, whether they should operate as much as possible in different world areas or whether there should be competition between American flag carriers; whether, if there is to be more than one, there should be any prohibition against a domestic carrier proposing to operate beyond the borders of the United States; and many related questions of an economic and political nature.

Future International Aviation

Although, as I have indicated, the United States has had a very considerable volume of international operations in the past—it led the world in this respect—the volume of operations in peace times was insignificant compared to what is in store in the future. We expect that international trade and travel routes can be opened up widely and rapidly after this war is over. These routes will give access directly to commercial objectives, unimpeded by shore lines, barriers, and bottlenecks which have plagued other forms of transportation in the past. The impact of air commerce of the future upon our economic, social, cultural, and political life will be enormous. We are riding the crest of a wave of discovery and invention which got underway a hundred or so years ago and which, we hope, is still accumulating force for a much greater future. Someone has said that transportation is civilization. In any event, civilization and this wave of discovery thrive and develop best when it is possible for the people everywhere to profit from the best that is thought and developed by every people elsewhere in the world. High speed, time arresting, world-wide travel and the resulting acceleration in the exchange of ideas can be a powerful agent in stimulating the creative developments which are possible in the future.

It was under these promising prospects that the Chicago International Civil Aviation Conference was held last November and December. That conference achieved some of the greatest and most progressive steps ever taken in the field of aviation. Before this Conference there had been two major attempts to organize the world, or portions of it, in the safety and technical fields of aviation. Neither of them had achieved the widespread acceptance necessary to meet the world-wide requirements of civil aviation for the future.

The first and most important of these attempts was the Paris Convention of 1919. Although an original signatory to this Convention, the United States did not ratify it. It was not placed in effect in many important regions

of the world. The other major attempt was the Habana Convention of 1928. This Convention was expected to apply only in the Western Hemisphere, but it has not been ratified by many important countries in this hemisphere. Each of these Conventions related to safety and technical matters and neither of them undertook to provide in any way for the establishment of commercial air routes. Although each Convention purported to grant so-called "innocent passage" to private aircraft, there was, in many cases, a good deal of red tape involved even in that limited class of international travel.

The Chicago Conference

The Chicago Conference produced, among others, five documents of chief importance which were drafted and opened for signature at the Conference. The first of these was a new International Air Navigation Convention. It represents one of the most outstanding contributions in the field of civil aviation ever achieved by an aviation conference and reflects the experience gained under the Paris and Habana Conventions. It represents a strictly modern, up-to-date attempt to provide for order and regulation in the safety and technical fields for all types of civil airplane international operations and, if accepted by the nations, will, for the first time, have organized the whole world with respect to the regulation of these very important matters. It provides for a world organization consisting of an Assembly and a Council. In the Assembly each country is to have one vote. Twenty-one nations are to be represented on the Council, eight of them nations constituting those of chief importance in air transport, five constituting those not otherwise included, which make the largest contribution to the provision of facilities for international civil air navigation, and eight not otherwise included whose election will insure that all major geographical areas of the world are represented. In addition to the jurisdiction of the Council over safety and technical matters, it has certain powers of investigation and reporting in other fields as well. It is also to be the repository for the recording of a good deal of statistical information regarding the operation of international air lines and of international agreements relating to air transportation between nations and between any nation and air lines of other nations.

A second document drafted and opened for signature at Chicago is known as the Interim Agreement. It provides, during the period (not to exceed three years) from now until the time when the International Convention can be properly ratified by the countries of the world, for a temporary or interim world organization similar in structure to that provided for in the permanent convention. The seat of the Interim Council is to be in Canada.

The third is the co-called "Two Freedoms Document." The first of these freedoms is the privilege accorded by each signing nation to the aircraft operated in civil air transportation by each other signing nation to fly in transit through its air space without any additional special authorization. The second of these freedoms is the privilege accorded by each signing nation to the aircraft operated in civil air transportation of each other signing nation to make non-traffic stops within its territory. The purpose of a non-traffic stop is to take on gasoline and oil, to make repairs, to take refuge from storm, or to meet an emergency. I do not have the time here to appraise accurately the great value of these two so-called "Freedoms." They are really privileges mutually exchanged in order to promote the cause of international air transportation. Suffice it to

say that they are, in my opinion, very great steps forward in connection with the establishment of international air routes; and that is true generally and not only with respect to a particular nation's operations. The second privilege, that of non-traffic stop, in effect throws open those important and much discussed air bases built during this war which will be needed for international civil air transportation so far as they do not have to be used exclusively for military purposes.

The important fourth paper produced at Chicago is the so-called "Five Freedoms Document." In addition to including the above-mentioned Two Freedoms, this document also includes the right to carry traffic embarked in the home state to any other state in the world (the Third Freedom), the right to pick up traffic anywhere in the world destined to the home state (the Fourth Freedom), and the right to pick up traffic along the route in a foreign state and carry it to another foreign state (the Fifth Freedom). In the exercise of the so-called "Five Freedoms," routes operated thereunder must be reasonably direct out from and back to the homeland.

The fifth document produced by the Chicago Conference is the so-called "Standard Form of Bilateral Agreement." Realizing that, of course, not all countries will adhere to the Five Freedoms Document and that even with respect to those that do so there may well be an interim period during which the international air lines must be operated, some standard clauses for bilateral agreements providing for air routes were developed at Chicago and unanimously recommended by the Conference to all nations for use in any bilateral agreements authorizing such routes. The most important provisions of these standard clauses are: first, that discrimination against any country or its air lines is forbidden; second, the building up of air blocs providing for the exclusive use of air space by any nation in any part of the world is outlawed; and third, the making of international air transport agreements whether between countries or between a country and an air line is required to be filed with the international body and made public. The Conference thus unanimously voted to eliminate the era of secret agreements in the field of international air transportation.

It is too early to prophesy as to the extent to which these agreements will be accepted by the nations of the world. It is not too early, however, to express the very earnest hope and confident expectation that the Interim Agreement will come into force at a very early date. It will do that when twenty-six nations have confirmed their signatures to the United States.

Effect on American Shipping

As we contemplate the establishment of these important international air trade and travel routes of the future, whether pursuant to bilateral air transport agreements between nations or eventually under the Five Freedoms Agreement or under some other international arrangement, it is appropriate to inquire about the effect of these routes on trade and travel by sea.

Mark well the point that in the long run the largest portion of international air transport business will be new business which has never before existed. The railroads had developed yearly average per capita railroad passenger miles in the United States to 114 by 1880; to 350 to 1915. But in a very short time the automobile created a whole new volume of traffic; before the war the average yearly per capita motor vehicle passenger miles were around 1500. Better and faster ships increased foreign travel by United States citizens from around one person annually out of 5,000 to

about one out of 350 before the war. We do not know the limit of our capacity to trade and travel as the transportation medium improves and the rates go down. Thus a tremendous growth of entirely new business in international air trade and travel is sure to develop when the enlarged opportunity to use the service comes. And as fast travel becomes available to the business man, his markets and his business expand. Bulk shipments following his business trips will, in all probability, as I shall explain later, go by snail and not by plane, thus enlarging—not diminishing—the business of our Merchant Marine.

I want to make it unmistakably clear that, as I have just indicated, I do not believe that the air trade and travel routes will be the only trade routes of the future over which the commerce of the world will move. Every new form of transportation, as well as creating new traffic, has diverted some traffic from older forms of transportation. To the extent that air transportation diverts traffic from surface vessels, it will initially consist principally of passenger traffic. When a greatly expanded network of world wide airways is available, persons interested in speed who might otherwise travel abroad as first or cabin-class passengers on steamships will have strong motives to go by air. The cost of traveling by air will be competitive with that of first and cabin-class travel by sea; the time saved by air will range from days to weeks; the inducement to travel by air will be compelling; but the first and cabin-class sea travel which is destined to go to the air will, in the long run, be but a minor fraction of the total of international passenger air travel. New air passenger business will constitute the major fraction.

Some limited diversion of ocean cargo to the air will also take place but it will not constitute more than a very small fraction of the sea total, so far as we can now see. Until international air cargo rates can compete economically with ocean shipping rates the percentage of diversion will be small. Of the 7,225,124 tons of exports from the United States to the United Kingdom in 1938, only 260.4 tons, or .004 per cent, bore rates of more than five cents a ton-mile; over one-third of the total tons exported was shipped at less than half a cent a ton-mile. Air cargo rates up to now have been many times higher. It will be a long time, if ever, before air cargo rates will be able even to approach most of the ocean rates. Ocean transport, so long as it remains the cheapest means of freight movement in the world, must be counted upon to continue to transport bulk cargo. Air transportation will be obliged to be content with only a small amount of diverted cargo where time, competitive considerations, or unusual circumstances control the medium of shipment.

Thus, the division of passenger traffic, and the limited diversion of cargo traffic, to the air most decidedly does not mean a destruction of the United States Merchant Marine. Ships will still carry the bulk of the exports and imports of the United States.

In 1938 the United States Merchant Marine consisted of 27,155 vessels having a gross tonnage of 14,651,000. Of this total, however, only 1,575 vessels, having a gross tonnage of 3,550,815, were registered and engaged in the foreign trade. Sixty per cent of the vessels engaged in the foreign trade, representing 54 per cent of the gross tonnage, were in the freight services; 5 per cent of the vessels, representing 14 per cent of the tonnage, were tankers, and 22 per cent of the vessels, representing 3 per cent of the tonnage, had their services classified as dredging, ferry, fishing, oystering, pile driving, towing, wrecking, pilot boat, patrol boat, refrigerator, whaling

The Supreme Court and the Power of Congress to Regulate Money

(Continued from page 643)

power to regulate the value of money." The action was legal, let others challenge its wisdom.

Prior to the Civil War the monetary powers of Congress were confined to the creation of the First (1791-1811) and Second (1816-1836) Banks of the United States, and the issue by the mint of gold and silver coins, the only forms of money recognized by the Government as legal tender. The Treasury did not issue any circulating notes. The only bank currency in circulation was issued by State banks and the First and Second United States Banks. But under the pressure brought on by the financial crisis created by the Civil War, Congress began to exert its powers on an ever-widening scale. In 1862 and 1863 Congress issued credit money, bills of credit, popularly known as Greenbacks. I am not here concerned with the tragic consequences of the Legal Tender Acts, but only with their constitutionality. They led to a series of cases in the Supreme Court, the net result of which was a judicial declaration recognizing an unstaked Congressional monetary power.

Mr. Justice Gray, speaking for the Court, held:

Congress, as the legislature of a sovereign nation, being expressly empowered by the Constitution, "to lay and collect taxes, to pay the debts and provide for the common defense and general welfare of the United States," and "to borrow money on the credit of the United States," and "to coin money and regulate the value thereof and of foreign coin"; and being clearly authorized, as incidental to the exercise of those great powers, to emit bills of credit, to charter national banks, and to provide a national currency for the whole people, in the form of coin, Treasury notes, and national bank bills; and the power to make the notes of the Government a legal tender in payment of private debts, being one of the powers belonging to sovereignty in other civilized nations, and not expressly withheld from Congress by the Constitution; we are irresistibly impelled to the conclusion that the impressing upon the Treasury notes of the United States the quality of being a legal tender in payment of private debts is an appropriate means, conducive and plainly adapted to the execution of the undoubted powers of Congress, consistent with the letter and spirit of the Constitution, and, therefore, within the meaning of that instrument, "necessary and proper for carrying into execution the powers vested by this Constitution in the government of the United States."²⁴

The War has posed new monetary problems, such as the proposed international bank and the supplying of a currency for occupied territory. Whatever steps will be taken by our Government involving foreign states will be by virtue of the war and foreign relations powers, and not in the exercise of the power to coin and regulate the value of money. I anticipate no judicial interference here. The war and foreign relations powers are political powers in the highest sense, since they have their common source in the law of self-preservation. Inflexible judicial rubrics are not adaptable to political crises. This is the area of political discretion *par excellence*. While it is possible to conceive of acts under these powers which would lead to judicial interposition of constitutional limitations, it is not probable that any government would

commit such acts. The President and the Congress, no less than the Court, are mindful of their duties and of constitutional purposes. That either or all of them may falter in the performance of their duties is, of course, admitted; but the judicial formulary offers no mode of escape from official dereliction.

Furthermore, the Court has given wide latitude to these powers, suggesting that they may not be governed by the principle of limited or enumerated powers. In the *Curtiss-Wright* case the Court said:

The powers to declare and wage war, to conclude peace, to make treaties, to maintain diplomatic relations with other sovereignties, if they had never been mentioned in the Constitution, would have been vested in the Federal Government as necessary concomitants of nationality.²⁵

And in *Missouri v. Holland*²⁶ the Court implied that the treaty-making power is limited only by specific prohibitions, that is, that this power is not restricted to enumerated powers. And in *United States v. Arjona*,²⁷ the Court held that Congress has the power to pass any law which is appropriate to the enforcement of any obligation of the United States under international law. One of these obligations, said the Court, was the protection of the securities of a foreign state against acts of fraud within the United States, and the Court quoted with approval the following passage from Vattel:

There is another custom more modern, and of no less use to commerce than the establishment of coin, namely, *exchange*, or the traffic of bankers, by means of which a merchant remits immense sums from one end of the world to the other, at very trifling expense, and, if he pleases, without risk. For the same reason that sovereigns are obliged to protect commerce, they are obliged to support this custom, by good laws, in which every merchant, whether citizen or foreigner, may find security.

That an international bank, such as provided for in the Bretton Woods proposals, is an appropriate constitutional means to this end is, I believe, without question.

As Commander-in-chief of the army and navy the President "may invade the hostile country, and subject it to the sovereignty and authority of the United States,"²⁸ and he may establish provisional governments in the invaded territories. Following the conquest of Upper California, in the war with Mexico, President Polk, in 1847, as Commander-in-chief, authorized the military commander in California to form a civil government, make port regulations, and impose import duties for the support of the military government. These orders of the President were held to be "according to the law of arms and the right of conquest."²⁹ President Lincoln, by executive order, established a Provisional Court in Louisiana in 1862. This court ruled that its existence depended on "the law of nations, and on that part of the law of nations relating to war."³⁰ And President McKinley, in the exercise of his military powers, issued an order to the Secretary of War, July 18, 1898, giving instructions for the government of conquered Santiago de Cuba.³¹

A provisional government necessarily includes a currency system, such as the "occupation currency." This is not a part of the currency of the United States, but it may be exchanged for

American dollars at a rate prescribed by the Treasury presumably in the name of the military authorities. It can be made either a part of or the sole local currency, and so can be made legal tender *within the occupied territory*.

Are there, then, no Constitutional limits to the money powers of the National Government? I am not prepared to say that there are not, for not even Jeremiah would have jeopardized his reputation as a prophet by forecasting the limits of due process of law—and I am not clairvoyant. But when the Three Horsemen—Nazism, Fascism and Communism—are done with their riding, our part in the rebuilding of a demoralized world cannot be circumscribed by Constitutional limitations that embody Herbert Spencer's Social Statics.

As money will be the activating agent in the work of reconstruction, domestic and foreign, the money power may find new uses. For instance, we have observed earlier that the quality of legal tender, attributed by legislative fiat, gives to money, coin and paper, "a value which does not attach as a mere consequence of intrinsic value." But this value is affected by the scarcity of the monetary metals, the credit rating of the Government, and by a multitude of other factors. May Congress, therefore, under the guise of improving the credit of the Government, go into business on a large scale? or, for the purpose of stabilizing the purchasing power, the commodity value, of the dollar, embark upon a comprehensive program of price control?

These and other powers equally shocking to the individualist, lie within the undefinable precinct of political discretion. Their proper exercise waits on the emergency which may mean action or injury to the public welfare. Economic salvation, as conceived by the people in their organized political capacity, cannot be unconstitutional. The people may embrace unorthodox or even heretical doctrine in their search for economic salvation, but the Constitution does not guarantee the wisdom of political action, and it does not embody any particular economic theory, whether of paternalism or *laissez faire*.

Conclusion

There are some governmental powers that cannot be hedged about by legal restrictions without danger to the public welfare. Such powers are most effectively controlled through the ballot. There is a tendency to confuse power with policy, and to reason that if there is power it is likely to be abused. Therefore, power must be denied, or judicially strait-jacketed within the due process clause. But to assume that Congress will abuse its power, in the words of Mr. Chief Justice Stone, "hardly rises to the dignity of argument. So may judicial power be abused." And Mr. Chief Justice Marshall pointed out that "All power may be abused; and if fear of its abuse is to constitute an argument against its existence, it might be urged against the existence of that which is universally acknowledged, and which is indispensable to the general welfare."³²

We would be well advised to put greater emphasis on the protective value of the franchise and less on constitutional limitations. A democracy cannot thrive in the enervating atmosphere of *stare decisis*, it cannot live in a state of judicial pupillage, no matter how wise the judges may be. It must be free to make social experiments uninhibited by its past, if it is to develop the self reliance, the self discipline, without which the democratic process degenerates into some alien liberty-destroying "ism." With the wisdom of such experiments the judge

Tomorrow's Markets Walter Whyte

Says—

(Continued from page 622)
chances are you won't hear anything more than the usual glittering generalities for a long time to come.

But so far all the foregoing has no immediate bearing on the stock market. Or maybe it has. I haven't made up my mind yet. For underneath all the action, and lack of confirming action, the market is making encouraging signs. The industrial averages, for example, have just made a new high. Though the rails seem to be out of it. But even that shouldn't come as a surprise to readers of this column. They were warned of that at least a month ago.

But if the rails have gradually become bashful the utilities are becoming precocious. That too wasn't unexpected by readers. A few weeks ago the position of that group was discussed here when attention was called to the action of two stocks, Consolidated Edison, then at 24 and Public Service of New Jersey at about 17. Currently these are selling at 27 and 20 respectively.

Last week I indicated that a new list of recommendations would be given here if market action warranted. Here it is:

Financial Advertisers Elect Norcross Pres.

At the annual meeting of the New York Financial Advertisers, Theodore W. Norcross of the Bank of New York was elected President for 1945. Other officers elected were William Huckel of the Chase National Bank, First Vice-President; P. Raymond Haulenbeek of the North River Savings Bank, Second Vice-President; Lee C. Horney of the New York Post, Secretary, and Edward B. Sturges II of Edward B. Sturges II, Inc. was elected Treasurer.

Directors for the year are: Merrill Anderson of the Merrill Anderson Company, Dorcas Campbell of the East River Savings Bank, George E. Kirby of the Greenpoint Savings Bank, John J. Lawlor of the National City Bank, Louis S. Leventhal of Leventhal & Company, Richard Meyer of the Wall Street Journal, Frederick G. Rudge of William E. Rudge's Sons, Inc., Ruel S. Smith of Time, Inc., Harold L. Whitaker of the Brevoort Savings Bank and William T. Wilson of the American Bankers' Association.

should have the interest of the citizen only, not of the censor.

24 *Julliard v. Greenman*, 110 U. S. 421, 449-450 (1884). See also *Legal Tender Cases*, 12 How. 457 (1870).

25 *United States v. Curtiss-Wright Export Corporation*, 299 U. S. 304, 318 (1936).

26 252 U. S. 416 (1920).

27 120 U. S. 479, 484 (1887).

28 *Fleming v. Page*, 9 How. 603 (1850).

29 *Cross v. Harrison*, 16 How. 164 (1853).

30 *United States v. Reiter*, Provisional Court, State of Louisiana, Federal Case No. 16, 146 (1865). See also *The Grapeshot*, 9 Wall. 129 (1869).

31 J. B. Moore, *A Digest of International Law*, Vol. VII, p. 261.

32 *Brown v. Maryland*, 12 Wheat. 419, 439-440 (1827).

Buy Allis Chalmers between 40½ and 41½; stop 39.
Buy American Bank Note between 23 and 24; stop 22.

Buy National Lead between 25 and 26; stop 24.

Buy Socony Vacuum between 15 and 15½; stop 14½.

Buy American Radiator between 12½ and 13½; stop 11.

You had an old stop in Glenn Martin at 22. During the week it got to 21¾ but bounced right back again. Your profit in this one wasn't much to speak about. As a matter of fact with commissions and taxes the chances are that if you sold when it broke 22 you got out just about even. Particularly if it was an odd lot.

Three weeks ago I casually threw out a few stocks which I felt would do okay if the market retained its equilibrium. I didn't stress them for a good reason. In case you bought them, and for the record, I list their prices and names:

American Crystal Sugar about 18⅞, stop 18. Currently about 19.

American Steel Foundries about 28, stop 27. Currently about 30.

Baldwin Locomotive about 26, stop 25. Current price about 28.

Crucible Steel about 38, stop 35. Current price about 42.

That about completes the list. I think both action and volume will now tend to increase. However, don't be surprised if you first see a period of dullness. For oddly enough both action and dullness are indicated. So the chances are you may see both.

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

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The Financial Situation

It is still far from certain what the ultimate repercussions of the nomination of Mr. Wallace (and the manner of the nomination) will be. The President's strange letter to Mr. Jones is still a subject of much debate. Apparently, many people take the meaning of this epistle to be many things, and their reactions are about equally varied. It still appears, all but certain that, whatever the President's real intentions, he has created a situation in Congress which he could scarcely have foreseen and certainly not desired. One result—but by no means the only one—appears to be a virtual certainty that Mr. Wallace will not enter the Administration precisely as he and his friends apparently expected. The President is a resourceful man, however, and it would be rash to assume that what Congress now does in this matter will be the be-all and the end-all of the matter. Indeed Mr. Wallace himself and his chief political backers, the so-called CIO-PAC, are but little less determined men.

Wallace Only a Part

It is, of course, clear that Congress will serve the country well if and when it refuses to permit Mr. Wallace to have control of that vast nexus of lending and spending, the RFC and subsidiaries, either now or at any time. It would serve it still better if in addition it took such steps as are available to make certain that the President is unable to accomplish about this same thing in some other manner. If further it also refused to make the former Vice-President Secretary of Commerce under any circumstances, it would earn the full gratitude of an uneasy nation. Congress must not, however, permit its attention to become so fixed on Mr. Wallace that it fails for a moment to bear in mind the fact that the real importance of this whole issue finds its source in a situation of which Mr. Wallace is but a part—and it may be a rather unimportant part.

(Continued on page 652)

From Washington Ahead of the News

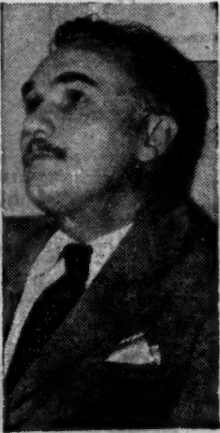
By CARLISLE BARGERON

It is now beginning to develop that Mr. Roosevelt must not have seen the ramifications of his appointment of Henry Wallace as the Federal loan czar. The general belief in Washington, engendered particularly by his crude letter to Jesse Jones, has been that he, or at least, the men around him, would like to get rid of both of them. At this writing, he has got rid of Jones and if Wallace is to remain in the official picture at all, which with the final outcome is doubtful, he will be in a position of innocuous desecration. But the situation is developing from there to the point where Congress seems determined to get a conflict with him on many things. His action has opened up a Pandora's box for the New Deal. Congress seems now in the mood to take advantage of the controversy aroused about Wallace, to make one grand lunge to get back a large part of its power which, ever since 1933, it has turned over to the executive branch.

What we have in mind is that ever since 1943, a lot of citizens' groups, calling themselves Taxpayers' Leagues, and on this one proposition, at least, working under the guidance of a national group called the National Citizens' Committee, of which John W. Hanes is the head man, has been becoming increasingly active against Big Government—the Government Trust, as a political twist on the Power Trust, a term on which so many politicians have ridden to success, and whatever other terms might be appropriate. They have been hammering home with varying degrees of success in the vast propaganda din to which the citizens are being subjected these days, the fact that the Government has so many "corporations" functioning, that no one agency or no one official in the Government can enumerate them. Many of these big businesses are incorporated in various States. They are running high, wide and handsome as private businesses like U. S. Steel, with little or no Government check on them, with no Congressional check on them.

There are some 50 of them. A Senate committee headed by Senator Byrd of Virginia, reported in August of last year, that it had found 44. In a study made in May of the previous year by the National Citizens Committee, and as

(Continued on page 656)



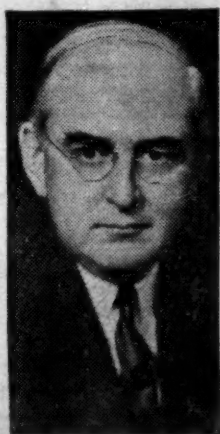
Carlisle Bargeron

Fraternity For Peace Indispensable

By HON. ARTHUR H. VANDENBERG*
U. S. Senator from Michigan

Amplifying His Recent Speech in the Senate, Senator Vandenberg Again Urges the United States Announce Its Attitude Regarding a World Security Organization. Calls for the Practical Application of the Atlantic Charter and Upholds the Dumbarton Oaks Formula for International Conciliation. Says President Has Constitutional Power to Use Military Force, but Insists "the Genius of Dumbarton Oaks Is the Substitution of Justice for Force!" Holds National Self Interests Can Be Maintained Under a Security Pact.

With deepest gratitude, I thank you for your generosity to me upon this fine occasion. Under pressure of the times in Washington, I rarely have an opportunity to get back to home, sweet home, during these days and nights which try the souls of men and test the fate of nations. You may understand, therefore, why I so deeply appreciate your hospitality. I shall respond by gratefully taking advantage of the occasion to tell you what is in my heart regarding the dedications which must be closest to yours.



A. H. Vandenberg

One: America must win this war as swiftly and conclusively as possible, and no interruptions to the supply lines which sustain our intrepid soldier sons can be tolerated for a single, bloody instant. Two: America must seek a peace which justifies this sacrifice and martyrdom, which searches for justice as a substitute for force, and which plans a free world for free men.

Announce American Policy

In the time at my disposal I concentrate upon this latter aim.

*An address by Senator Vandenberg before a meeting of the Variety Club of Detroit, Michigan, Feb. 5, 1945.

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We have relative unity in this fraternity of battle. We sometimes drift dangerously away from a kindred but equally indispensable fraternity for peace. It is our responsibility to see to it that if this unity-for-peace disintegrates, it is not our America which shall be held at fault when the books of history are balanced. In my view, we cannot serve this solemn function by further silence in respect to our attitudes. That silence confuses our Allies. It often provides them with the reason which they plead to justify unilateral decisions which collide with our ideals. It may dangerously invite the conclusion that our silence gives our own consent by default. It even confuses our own people who frequently cry out in anguish for the definition of our aims. It is time for us to say what we will do. It is time for us to say what we will not do. And it is time for us to start the doing.

That is my theme tonight.

As a basis for our thinking, let me lay down a few fundamentals. The first is the recognition of a physical fact. Since Pearl Harbor, the ghastly countenance of war has become more sinister than ever before in the night-

mares of the human race. The awful science of mass murder has made more progress — what a word! — in three cruel years than in all the centuries since time began. And this new science is only in its lethal infancy. Contemplate the robot bomb in its maturity! Contemplate the refinements of "jet propulsion" when it still further reduces this fore-shortened world to an intimate neighborhood! Contemplate a war of push-buttons in which human flesh and blood are at the mercy of mechanized disaster! I need not labor the point.

This war, God knows, is bad enough. But world war number three will open new laboratories of death too horrible to contemplate. I propose to do everything within my power to keep those laboratories closed for keeps. I make this pledge in the name of humane common sense. But more than that, I make it in the name of American self-interest. Times have changed. The oceans are no longer moats around our ramparts. Once upon a time Detroit could wait for the enemy to get to Windsor. In the next world war, an enemy half way around the globe will be just as close. No nation hereafter can immunize itself by its own

(Continued on page 654)

Supports Alexander Wilson's Views On Isolationism

Berkeley Williams of Richmond, Va., Disagrees With Mr. Lightbowne's Criticism in the "Chronicle" of Jan. 25 of Alexander Wilson's Article, "Are Americans Isolationists?"

Editor, "Commercial and Financial Chronicle":

If I understand the English language, the men in our combat forces I hear from are telling me that if, when and as they get back



Berkeley Williams

and have anything to do about it, this country will mind its own business in the future. The voices of those returning G.I.'s will be the voices of authority and discussion of the question "Are Americans Isolationists?" by us here at home may, therefore, be academic, but nevertheless it is timely and informative, so keep it up. In my opinion Alexander Wilson gave a complete answer

to the question in his discussion under that title. His statement of what it means to be an Isolationist was crystal clear and in substance was "that we should mind our own business as individuals and as a nation." Also his conclusions were supported by undisputed historical facts.

Mr. Lightbowne last week undertook to criticize it, and not only failed to give any clear idea of his own of what it means to be an Isolationist, but applied the straw-man technique in his discussion. In other words, he pulled two propositions out of the air: (1) "Why the United States Entered the War," and quoted a pontifical hindsight editorial from the New York "Times" with more or less comment on what might

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Bankers' Associations Report On Bretton Woods Plans

Approve the Objectives, But Recommend That the International Monetary Fund Be Not Adopted, and Certain of Its Features Be Incorporated Into the Provisions of the Bank. Wants Bank to Negotiate Exchange Stabilization Agreements and to Make Stabilization Loans. Advocates Enlargement of Export-Import Bank.

Three bankers' organizations, in a report issued in their behalf Feb. 5, approved the objectives of the Bretton Woods program but recommended merging certain features of the Stabilization Fund into the Bank to form a single institution instead of two.

The three collaborating associations in the study of the Bretton Woods program were: The American Bankers Association, the Association of Reserve City Bankers, and the Bankers Association for Foreign Trade.

A practical plan that will "wear," the report states, was the aim sought by the bankers in formulating their report, which embodies recommendations of a specific character.

"We suggest a way of preserving and making effective the desirable features of the Bretton Woods proposals, while at the same time avoiding their more serious dangers," the report says in a foreword. "In brief, we recommend that the plan for the International Bank for Reconstruction and Development be adopted with minor changes, but that the plan for the International Monetary Fund be not adopted, as it embodies lending methods that are unproved and impractical. In lieu of the Monetary Fund we recommend that certain of its features be incorporated into the provisions for the Bank. In this way, we believe, the objectives of Bretton Woods could be achieved and the risks reduced."

In addition to the recommendations, the report also endorses the enlargement of the capacity of the Export-Import Bank through an increase of its capital, and the repeal of legislation forbidding loans to nations already in default to this country on war debts.

Specific Recommendations

The recommendations of the three associations in detail are as follows:

(1) That the capital funds of the Export-Import Bank be increased to \$2 billion, first to provide means for meeting promptly deserving credit needs prior to the setting up of an international bank, and second to enable the United States to make loans in which this country has special interest and which can be made more effectively through a national institution than through an international body.

(2) That the Johnson Act and any analogous provisions in the Neutrality Act now standing in the way of private loans to certain foreign countries be repealed.

(3) That the Bretton Woods plan for an International Bank of Reconstruction and Development be adopted, but with the following suggested changes:

(a) That the two paragraphs in the Bank agreement which make membership in the Bank dependent on membership in the Fund be deleted.

(b) That an article be added placing on the governors and directors of the Bank responsibility for arranging and negotiating agreements between the member countries with respect to the stabilization of currencies, removal of exchange controls as rapidly as practicable, and the general rules of procedure in carrying out monetary policies.

(c) That the Bank be authorized to collect information with respect to monetary and economic matters as outlined in the Monetary Fund proposal.

(d) That the lending powers of the Bank be broadened sufficiently to allow it to make

loans, under the same safeguards as the other loans of the Bank, for the purpose of aiding countries in stabilizing their currencies.

The report assumes that, "with the adoption of the above recommendations, which do not include approval of the proposed Fund, the Bank would set up, under properly qualified management, a separate department to deal with currency stabilization. . . . These provisions should enable the Bank to carry out all the essential purposes of the Fund in a sound and practical manner," it believes. . . . "The capital provided in the Bank plan should be adequate for all the purposes included in the amended proposal. If, after a few years' operation, successful results demonstrate the need for more capital, there is nothing to prevent reconsideration of the subject at that time."

In addition, the bankers recommend throwing certain safeguards around the operations of the Bank. "These should include the provision that the American governor and director of the Bank should be appointed by the President with the advice and consent of the Senate and that they should be men of tested banking experience." The bankers would also make provision for what the report calls a "directing committee" consisting of officials such as the heads of the Treasury, State Department, Department of Commerce, the Export-Import Bank, Chairman of the Reserve Board, and the Foreign Economic Administrator. This committee, the report says, might instruct the American governor or director of the Bank in important decisions of broad policy affecting the welfare of the country, act as the agency of the United States in those matters in which the articles of the Bank call for a decision by this government, and report at regular intervals to the President and the Congress.

Principles Stressed

The report stresses the importance of the principles which should underlie any plans for international financial agreements and examines the Bretton Woods program in the light of the principles set forth by the American Bankers Association Economic Policy Commission in a previous study.

"There are really two plans," the report states, "one for a Fund and one for a Bank. They are elaborate and complicated, together filling 85 printed pages of text."

"The Bretton Woods program provides machinery for continuing international consultation on currency problems, the collecting of information, and agreement on the 'rules of the game' applicable to currency policies and practices. It would provide a place, where important people influential in the formulation of currency policies in the different countries might meet regularly and become acquainted with one another's problems. In these broad purposes the Bretton Woods proposals are in harmony with the principles heretofore endorsed by the American Bankers Association."

"The Bretton Woods program for the granting of credits is huge and complicated and the United States would supply a large proportion of the money," the report states. "The two institutions ini-

tially would have a combined capital of about \$18 billion in gold and miscellaneous currencies. Of the total the United States would make a commitment for nearly \$6 billion—about a third of the overall total, but more than half of the gold or currencies exchangeable into gold. Even this \$6 billion might not be all that the United States would be expected to supply, since the Fund has the right to borrow scarce currencies and quotas may by agreement be increased.

"With respect to size and complexity," it finds that "the Bretton Woods program departs from the principle that an international organization should be simple and understandable," adding that "there are already differences in interpretation."

"The plan for the Monetary Fund introduces a method of lending which is novel and contrary to accepted credit principles," it continues. "Under the system of quotas in the Fund, a member country would be virtually entitled to borrow in certain specified annual amounts from the international pool of resources, provided the purposes of such borrowings were represented by it to accord with the broad purposes of the Fund. The borrowing would be subject to certain limitations, but with no stipulation that the loans should be good loans or—once a country had been admitted to full rights of membership in the Fund—that the loans should be based on prior consideration of the economic condition and prospects of the borrowing country."

"The Monetary Fund also, in its effort to meet the situation of countries now in uncertain financial position, goes far beyond the principles heretofore accepted by the United States in recognizing and approving changes in currency values and the maintenance of exchange controls. It is noteworthy that in the evolution of the program the name 'Stabilization Fund' has been discarded. The difficulty arises inevitably from any attempt while we are still at war to lay down rules that we must live up to after the war and following the transition period. Naturally, many countries are reluctant to make firm commitments now as to currency values and removing exchange controls."

"The commitment is so slight that Lord Keynes has some justification for saying in the House of Lords, 'These proposals are the exact opposite to the gold standard.'"

"Nevertheless, the United States is asked for a firm commitment in putting up a large part of the internationally valid money."

Turning to the proposed Bank, the report declares that in contrast to the Fund, the Bank would operate more on the basis of established banking and investment principles.

"The Fund and the Bank are in different categories," it says. "The proposed International Bank embodies satisfactory principles and procedures: the loans have to be for specific purposes, they have to be examined by a special committee, they must offer promise of repayment, the country whose currency is lent has a veto power covering all major transactions, much of the operations may take the form of guarantees of loans made through the market and subject to that review, and the Bank will not make loans which can be made reasonably through private channels. If we assume good management, the institution should be able to operate soundly and effectively."

World Not Dependent on U. S. Gold

The report suggests that current discussion exaggerates the extent to which the whole world is dependent on the United States for goods and credits.

It points out that the outside

world as a whole already has more gold and dollar exchange than ever before, largely as a result of huge overseas expenditures for our armed forces and for materials. By September, 1944, foreign control banks and governments held, it says, \$17 billion in gold and dollars. Adding foreign-owned private banking funds, the total is estimated at \$20 billion. Already "in the three years that the Treasury has been considering plans for an International Monetary Fund, the outside world's holdings of gold and dollars have increased by something like \$7 billion. At the same time the gold stock in this country has been going down to the point where, in the face of the currency and credit expansion taking place, the President has suggested to the Congress the necessity of lowering the legally required reserves of the Federal Reserve banks."

The report recognizes that there will be some need for additional lending facilities involving the use of some government credit but warns against the inflationary tendencies of loading countries up with too much debt and adding to inflationary fires now burning over the world.

Pointing out that "we have national principles and interest to protect," the report says that on the board of any international financial institution there will be representatives of some countries which do not have the same understanding and appreciation of private enterprise as we do. It raises the question as to "how much ought we lend through an international organization and how much through a national body of our own, such as the Export-Import Bank. . . . In many cases there will be substantial advantages in having other countries share with us the responsibility and risk of loans," it is stated, "and this can be done by the (International) Bank effectively because of its structure. In other cases where American interests are closely involved we may find it better to make the loans ourselves through a national organization such as the Export-Import Bank. Its continuance, with sound management, is therefore desirable."

Two Institutions Not Required

Referring again to the fact that the Bretton Woods plan sets up two separate organizations, a Bank and a Fund, the report asks why should there be two.

"There would seem to be few advantages in such division of effort and many probable difficulties," it says. "Any program such as has been proposed will require wise and experienced management. The number of men qualified for these highly important posts is limited; and the prospect of divided authority and likelihood of jurisdictional conflicts between two such institutions might prove serious handicaps in attracting such men. Moreover, it, as seems possible, the cooperating nations should demand that the Fund be located in one country and the Bank in another, conflicts between the two would seem almost inevitable."

"If the Congress should decide to create only a single institution, the Bank might by minor changes in its charter, as suggested in this report, carry on the desirable functions of the Fund. The Bank might readily provide the meeting place for international consultation and agreement on monetary policies which the Bretton Woods program delegates to the complicated Fund. The other essential of the Fund is the provision of stabilization credits, which the Bank could supply with little change in its provisions and under more satisfactory safeguards."

The committees of the three banking organizations state that having studied the Bretton Woods plans with great care, they "make the foregoing recommendations in the belief that . . . the plan pro-

posed (by them) would prove sound and effective over a term of years in achieving the major objective of international financial cooperation. The committees believe that the Monetary Fund as drafted is unsound and would increase the already grave danger of inflation; would delay fundamental economic adjustments; and would fail to protect the principles and interests of the United States and her citizens. They believe that the simplified program they here suggest would accomplish the desired purposes more effectively and with much less danger. They believe that it would be accepted as readily by other countries and would wear better in the realities of this chaotic world."

The Committee's Personnel

The three committees in charge of the preparation of the report were the Advisory Committee on Special Activities of the American Bankers Association, the Committee on Federal Fiscal Policy of the Association of Reserve City Bankers, and the Study Committee on Post-War Problems of the Bankers Association for Foreign Trade. W. L. Hemingway, past president of the A. B. A. and president, Mercantile-Commerce Bank and Trust Company, St. Louis, Missouri, is chairman of the A. B. A. committee and the Reserve City Bankers committee. Clarence E. Hunter, vice-president, the New York Trust Company, New York, is chairman of the committee of the Bankers Association for Foreign Trade. In addition to the chairman these committees consist of:

Advisory Committee of Special Activities: Orval W. Adams, executive vice-president, Utah State National Bank, Salt Lake City, Utah; Winthrop W. Aldrich, chairman of the board, the Chase National Bank, New York, N. Y.; Leonard P. Ayres, vice-president, the Cleveland Trust Company, Cleveland, Ohio; W. Randolph Burgess, vice-chairman of the board the National City Bank, New York, N. Y.; J. Luther Cleveland, president, Guaranty Trust Company, New York, N. Y.; Robert V. Fleming, president, the Riggs National Bank, Washington, D. C.; Robert M. Hanes, president, Wachovia Bank and Trust Company, Winston-Salem, North Carolina; Fred I. Kent, director, Bankers Trust Company, New York, N. Y.; Hugh H. McGee, vice-president, Bankers Trust Company, New York, N. Y.; Frank C. Rathje, chairman of the board and president, Chicago City Bank and Trust Company, Chicago, Illinois; Tom K. Smith, president, the Boatmen's National Bank, St. Louis, Missouri; Charles E. Spencer, Jr., president, First National Bank, Boston, Massachusetts; and Merle E. Selesman, deputy manager, A. B. A., New York, N. Y., secretary.

Committee on Federal Fiscal Policy: Keahn W. Berry, president, Whitney National Bank, New Orleans, Louisiana; H. Donald Campbell, president, the Chase National Bank, New York, N. Y.; S. Sloan Colt, president, Bankers Trust Company, New York, N. Y.; Robert V. Fleming, president, Riggs National Bank, Washington, D. C., ex-officio as president of the association; Fred F. Florence, president, Republic National Bank, Dallas, Texas; H. Hiter Harris, president, First and Merchants National Bank, Richmond, Virginia; Percy H. Johnston, chairman, Chemical Bank and Trust Company, New York, N. Y.; James R. Leavell, president, Continental Illinois National Bank and Trust Company, Chicago, Illinois; William A. Mitchell, vice-president, J. P. Morgan & Company, Incorporated, New York, N. Y.; Andrew Price, president, National Bank of Commerce, Seattle, Washington; James D. Robinson, president, First National Bank, Atlanta, Georgia; Charles E.

Spencer, Jr., president, First National Bank, Boston, Massachusetts; J. C. Traphagen, president, Bank of New York, New York, N. Y., and G. M. Wallace, president, Security-First National Bank, Los Angeles, California.

Study Committee on Post-War Problems: E. M. Andel, assistant vice-president, Bankers Trust Company, New York, N. Y.; Owen L. Carlton, vice-president, Central National Bank, Cleveland, Ohio; W. F. Gephart, vice-president, First National Bank, St. Louis, Missouri; W. Latimer Gray, vice-president, First National Bank, Boston, Massachusetts; J. Leroy Lawson, supervisor of banking arrangements Royal Bank of Canada, Montreal, Canada; Robert F. Loree, vice-president, Guaranty Trust Company, New York, N. Y.; Elliott McAllister, vice-president, the Bank of California National Association, San Francisco, California; J. F. McRae, president, the Merchants National Bank, Mobile, Alabama; William A. Mitchell, vice-president, J. P. Morgan & Company, Incorporated, New York, N. Y.; Arthur W. Roberts, vice-president, Continental Illinois National Bank and Trust Company, Chicago, Illinois; Harry Salinger, vice-president, First National Bank, Chicago, Illinois; Siegfried Stern, vice-president, the Chase National Bank, New York, N. Y., and Wilbert Ward, vice-president, the National City Bank of New York, New York, N. Y.

Declines Resignation Of Secretary Perkins

It was made known on Jan. 24 that President Roosevelt has declined to accept the resignation of Miss Frances Perkins as Secretary of Labor. Associated Press accounts from Washington reporting this, said:

"Miss Perkins refused to make public a letter from the President asking her to continue and rejecting her request to be permitted to quit after twelve years.

"The President's decision was reported to have been conveyed to her orally at first on Friday, the day before inauguration, and followed through with a letter.

"One of the last two members of Mr. Roosevelt's original Cabinet (Secretary Ickes is the other), she has been represented as wanting for a long time to step out of the labor post.

"The President was known to have offered nearly a month ago to appoint any successor on whom the CIO and AFL could agree.

"He discussed personalities with Philip Murray, President of the CIO, and William Green, President of the AFL, but the talks apparently were fruitless.

"During Miss Perkins' tenure her critics, including some labor leaders, have frequently laid stress on what they termed the need for a new appointee to handle labor issues.

"When she took the labor helm its principal preoccupation was with the immigration and naturalization service. Since then that branch has been transferred to the Justice Department and the various statistical agencies have been expanded, notably the Bureau of Labor Statistics.

"Miss Perkins has built up the Children's Bureau and the Women's Bureau and has been responsible for administration of the Fair Labor Standards Act and the Wage and Hour Law.

"Meanwhile, emergency war agencies touching on labor have developed outside her province. Among these are the War Labor Board, War Manpower Commission and the National Labor Relations Board."

The President, it is reported, has also declined to accept the resignation of Secretary Ickes.

State of Trade

Industrial production moved generally downward again this past week for the third week in succession. The backlog of unfilled orders continues to climb as the needs of war mount. Factory employment, although lower than last year, according to Dun & Bradstreet, Inc., has gained slightly over the previous several months as a general easing of the acute manpower shortages was reported for some industries and for some sections of the country.

The change in the tide of war in Europe in favor of the United Nations has again given rise to fresh optimism that the conflict in Europe may soon be terminated. There can be little doubt in any one's mind that Germany at long last has reached that decisive stage of the war that bodes only defeat for her, but we cannot afford to gamble on her apparent inability to delay too long the fatal hour, and there is no intention of our doing so. The past week witnessed another increase in applicants for war jobs without benefit of a national service law. Pending legislation in the form of the May-Bailey limited service bill managed to pass the House last week and at present is awaiting action by the Senate. The revised measure would place manpower controls in the hands of War Mobilization Director Byrnes, thus giving the WMC, instead of selective service, authority to obtain needed workers for essential industry and thereby same time and effort.

Should the above measure become a law it would have the effect of a further tightening in our civilian economy. The need for such a law here seems to lose much of its validity when one reads of England taking steps to reestablish her peacetime economy. It is reported that some 800 English manufacturers have received permission to go ahead with post-war models and 90% of her machine tools have been freed for civilian use after a deal by which lend-lease tools costing \$166,000,000 were sold to her for \$31,500,000.

Steel Industry—As a result of severe weather, freight embargoes, manpower shortages and employee fatigue, the steel industry this past week suffered one of its most drastic production set-backs since the war started. Mid-week saw no indication that the full pre-storm level of ingot output would materialize in the immediate future. The raw steel rate for the country declined three points this week to 89.5% of rated capacity, with some curtailments existent a week ago still in effect this week, states "The Iron Age," in its current review of the steel trade.

Some of the back-up in the nation's steel mills, which has caused a shutting down of furnaces, can be charged to the drastic rail freight embargo which ended Tuesday midnight of last week. Some indications were in evidence, however, that a new embargo might again be put into effect soon. Overall results of the most recent freight embargo may not be known for about a week, and while this action proved of considerable assistance to Army and Navy operations, it nevertheless caused considerable disruption of normal steel operations. This was occasioned in part by a misunderstanding of the order, as in the case of the coal miners who were ordered not to report to work.

Early this week the Buffalo district seemed to be the hardest hit by a combination of embargo, weather and manpower problems, with ingot output in that area scheduled at 29% early this week, compared with 93% the week before, reports the trade paper. On Tuesday of last week Bethlehem at Buffalo was operating 10 out of 30 open hearths; Republic Steel Corp. had all nine of its furnaces down, while Wickwire was unable to operate its four furnaces. At mid-week plans were uncertain as to when all furnaces would resume production.

At Pittsburgh steel losses at one plant alone amounted to 19,000

tons and coal stocks at various plants were down to a four-day supply, with plant officials already worrying about the possibility of an unprecedented flood in case a heavy and quick thaw should set in. At Cleveland the ingot rate dropped 10 points to 79.5% of capacity. Considerable steel was lost in that area when many open hearth furnaces were forced down.

In the Chicago district the embargo was met by reshuffling delivery schedules in order to provide delayed rolling for Eastern orders and by storing rolled products on mill floors. A car shortage further complicated the situation.

Steel order volume this past week continued to mount and order books generally bulged to twice the size of a month ago and were about 50% ahead of the similar period last year, "The Iron Age" disclosed. Despite the inability of mills to absorb further tonnage, order directives continued to pour down from WPB on overflowing schedules, particularly for structural steel. Inquiries by WPB into the possibility of an expansion in capacity to break the bottlenecks caused by the heavy shell program, disclosed that additional construction, if undertaken, could not become effective for some time—possibly a year. According to WPB Chairman Krug, Army steel requirements for the second quarter have been increased by 750,000 tons.

If shell steel goals, which have been revised upward repeatedly within the past few months, are met, it is clearer than ever that other programs will have to be further deferred. The revised landing mat program is showing complications as a result of a change in specifications. If such a specification were to become widespread, deliveries would be delayed at least 90 days from the June dates quoted for hot rolled sheets.

The American Iron and Steel Institute announced last Tuesday that the operating rate of steel companies (including 94% of the industry) will be 89.3% of capacity for the week beginning Feb. 5, compared with 90.1% one week ago. The current rate is the smallest of any non-holiday week since July 22-29, 1940. This week's operating rate is equivalent to 1,610,800 net tons of steel ingots and castings, compared with 1,625,200 tons last week and 1,741,800 net tons one year ago.

Electric Production—The Edison Electric Institute reports that the output of electricity increased to approximately 4,576,713,000 kwh. in the week ended Jan. 27, 1945, from 4,588,214,000 kwh. in the preceding week. Output for the week ended Jan. 27, 1945, was 1.2% above that for the corresponding weekly period one year ago.

Consolidated Edison Co. of New York reports system output of 200,600,000 kwh. in the week ended Jan. 28, 1945, comparing with 220,800,000 kwh. for the corresponding week of 1944, or a decrease of 9.1%.

Local distribution of electricity amounted to 186,700,000 kwh. compared with 208,000,000 kwh. for the corresponding week of last year, a decrease of 10.2%.

Railroad Freight Loading—Carloadings of revenue freight for the week ended Jan. 27, 1945, totaled 758,870 cars, the Association of American Railroads announced. This was a decrease of 18,450 cars, or 2.4% below the preceding week this year and a decrease of 52,020 cars, or 6.4% be-

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Congress vs. People

A committee of the American Political Science Association recently recommended:

"That Congress divest itself, because of the heavy volume of legislative business, of such work and activities as it can appropriately delegate to other agencies, such as the government of the District of Columbia, the settlement of private claims and pensions, and other private and local legislation.

"That the committees of Congress be adequately equipped with independent, qualified experts to aid them in making laws, such experts either to be attached to the committees or drawn from a central pool or joint legislative staff service.

"That a Legislative Council be established, to be composed of the Vice-President, the Speaker of the House, the Majority Leaders in both Chambers and the chairmen of the reorganized standing committees.

"That the function of legislative oversight of administrative performance be entrusted by Congress primarily to the subcommittees of the House Committee on Appropriations, which should be adequately staffed to permit continuing review and evaluation of the work of the executive agencies within their respective jurisdictions.

"That the annual salaries of Senators and Representatives be increased to \$15,000; that each member's annual allowance for clerical hire be substantially increased, and that the Civil Service Retirement Act be amended so as to make members of Congress eligible for retirement annuities on a contributory basis after long legislative service."

Congress in recent years has, we think, been at least as much "sinned against as sinning," but, of course, its record is not an enviable one.

The suggestions here made may have merit, but they are not likely to give us a really better Congress.

The chief trouble with the American Congress is the American people!

Senate Passes Bill Reserving Right To States To Regulate Insurance Business

A compromise bill covering the regulation of the insurance business was passed by the U. S. Senate on Jan. 25. It was noted in the Associated Press that the measure, the passage of which results from the decision of the U. S. Supreme Court on June 5, 1944 holding that insurance is commerce, and subject to the anti-trust laws reserves to the States the continued taxation and regulation of the insurance

business, but sets the right of the Federal Government to intervene in cases of "boycott, coercion or intimidation" in the fixing of rates.

"At the same time," says the press advices, "it exempts the insurance business from Sherman Act provisions until June 1, 1947, and Clayton Act provisions until Jan. 1, 1948, to permit a period of adjustment of existing procedures."

The Senate Judiciary Committee unanimously approved the bill on Jan. 22, stating that the Senate passed the measure (the McCarran-Ferguson bill) on a voice vote. Advices to the New York "Journal of Commerce" from its Washington bureau on Jan. 25 reported that no question was raised when the measure was brought to the Senate, and there was only a scattering of dissenting votes. The advices in the "Journal of Commerce" also said:

"It is expected that the McCarran-Ferguson bill will be referred to the House Judiciary Committee, which already has under consideration the Walter bill, which was re-introduced early in the present session after being passed by the House by an overwhelming vote last spring.

"The McCarran-Ferguson bill represents the feelings of a large part of the insurance industry as to the legislation necessary to assure regulation and taxation of the business by the States. Following the decision of the Supreme Court, holding that insurance is in interstate commerce and therefore subject to terms of the Sherman and Clayton acts, it was feared that the Federal Government would attempt to assume regulatory powers.

"Representatives of a number of

branches of the insurance industry, including the National Association of Insurance Commissioners, joined in asking Senator Pat McCarran (Dem., Nev.), Chairman of the Senate Judiciary Committee, to sponsor the measure which they had drafted.

"The Walter bill simply asserts that it was never the intent of Congress to apply provisions of the Sherman and Clayton Acts to the business of insurance.

"The McCarran-Ferguson bill is designed to give the States time to revise their laws in accordance with the Supreme Court decision and to perfect their own measures for regulating and taxing insurance within their own borders.

"The bill also specifically declares that it is the intent of Congress that taxation of insurance be left to the States. Several States, including North Carolina, South Carolina, Tennessee and Kentucky, require tax payments by Feb. 1 and without any assurance from Congress many companies would be forced to protest such tax payments because of the differences in tax treatment between domestic and foreign companies."

In our issue of Jan. 18 (page 291) reference was made to the letter addressed by President Roosevelt to Senator Radcliffe indicating his indorsement of a bill by Senator O'Mahoney providing for a moratorium exempting insurance companies from the Sherman Anti-Trust Act until March 1, 1946 except as to boycott, coercion or intimidation. The Supreme Court decision holding insurance inter-State trade and subject to the Anti-Trust Act was noted in these columns June 8, 1944, page 2383.

The Financial Situation

(Continued from first page)

There is a large element in the President's party which is convinced that our success in producing the sinews of war has "revealed" a hitherto unsuspected production capacity, and suggested a technique whereby this capacity can be fully utilized in peacetime. They are convinced moreover that "we" have learned (as if we had not had the same experience during the first World War) what it is like to have "full employment," and a good deal else that is not precisely defined but is supposed to be something very good, and that "we" shall never "consent" to "go back" to those unenlightened years which preceded 1943. As to techniques by which to reach this desired peacetime goal, they speak glibly, if vaguely, about "cooperation," one of the partners in the process being government. They apparently are not very clear in their own minds as yet as to precisely what part the government should play—but they are quite certain that it must put up funds in amounts which prior to our entry into this war would have been regarded as fantastic—the figment of some diseased imagination.

Although still speaking on occasion of orderly debt retirement after the war, the President himself is one of the leading exponents of this type of postwar policy, and Mr. Wallace is perhaps not only the most persistent and ardent, but possibly the most extreme, lieutenant of the President in this "movement," if such it may be termed. Since the President does without doubt feel under political obligations to Mr. Wallace, since Mr. Wallace is the darling of the CIO-PAC, and since the President may feel that he had political scores to settle with Mr. Jones, it is difficult to determine what the precise motives were in this nomination. It may have been made with the intention of placing the most erratic, and the most extreme, of the postwar managers and postwar spenders in a position where he could be of the greatest strategical value to the President and his more extreme left-wing supporters, or it may not, but it would have had such an effect—and the President could scarcely have been unaware of the fact.

Peacetime Lessons from War

At any rate, whatever the fate of the former Vice-President at the hands of the Senate or indirectly of the Congress, we have not heard the last of this post-war spending program which is being hatched up in Washington by many who worship Mr. Wallace—and it is being formu-

lated with the full approval of the President. The truth of the matter is that in essential principle this general notion of carrying war production volume and war employment over into the peace years by means of unheard-of government spending and by government control of many aspects of the economic life of the country, and therefore of the private lives of individual citizens, has support far beyond the boundaries of the President's party. In fine, here is a theory, founded more or less upon Keynesian theories, which command wide support, and will without the slightest question be cropping up from this point forward. Much will depend, indeed it would scarcely be too much to say that the future of this country will depend, in large measure upon the way in which Congress meets this challenge.

It will meet this challenge adequately or not depending not so much upon what it may think of Mr. Wallace or of the CIO-PAC, or what it may regard as the politics of the situation as upon the degree in which it may see clearly the defects, indeed the deadly danger, of the type of policies that are being formulated by such groups as these. The Wallaces may come and the Wallaces may go, but such ideas as these may continue to plague or to threaten the country. Let there be no mistake about it. The Hillmans, the Reuthers, and the others in the left-wing labor union support of the President—and for that matter, the President himself—are not nearly so much interested as they may appear to be in Mr. Wallace as such. The moment they think their cause or their own future can do better without the former Vice-President we shall hear little more from him—except so far as he himself keeps his own political chariot moving. Congress, too, if it is to do its duty in this matter, must keep its eye on the ball, not merely on Mr. Wallace.

Mistaken Notions

Let no one suppose that the war, Mr. Wallace, the President, Lord Keynes, or any of the "bright young boys" so numerous in Washington have discovered any new formula for prosperity and economic welfare. The doctrines expounded by Keynes and made the basis for so many of these wierd ideas of the Wallaces and the others in and about Washington are either old, old ideas, sound enough in themselves, upon which have been grafted the strangest of conclusions, or else they simply are not in accord with the facts of life. It is all very well for

Lord Keynes to say, as he is reputed to have said, that only in war times can people be persuaded to develop the boldness which would prove his theories—with the vague notion apparently that wartime has proved his ideas. The trouble is that there simply is no truth in the idea that war experience has proved anything about peacetime policy. Nor is there any ground either in logic or in experience to lead any intelligent or reasonable man to suppose that it is possible for a people or the world to spend its way into riches.

We fear Mr. Wallace very much less than we do Mr. Wallace's program—and its piecemeal adoption.

Writing Down Good Will Through Charge to Capital Surplus Improper: SEC

The Securities and Exchange Commission made public on Jan. 20 an opinion of its Chief Accountant in its Accounting Series discussing the propriety of writing down goodwill by means of charges to capital surplus. The opinion is expressed therein that "the proposed charge to capital surplus is contrary to sound accounting principles." The opinion, prepared by William W. Wernitz, Chief Accountant, follows:

"Inquiry has been made as to whether in a financial statement required to be filed with the Commission goodwill may be written down or written off by means of charges to capital surplus. The goodwill in question resulted from the acquisition during the year of the assets and business of a going concern at a price of \$2,000,000, payable in cash or its equivalent. It was determined that \$1,750,000 was paid for the physical assets acquired and \$250,000 for goodwill. It is now proposed to write off this goodwill by a charge to capital surplus.

"In my opinion the proposed charge to capital surplus is contrary to sound accounting principles. It is clear that if the goodwill here involved is, or were to become, worthless, it would be necessary to write it off. Preferably such write-off should have been accomplished through timely charges to income, but in no event would it be permissible, under sound accounting principles, to charge the loss to capital surplus. The procedure being proposed would, however, evade such charges to income or earned surplus and would consequently result in an overstatement of income and earned surplus and an understatement of capital.

"This position was expressly taken in the following paragraph of the Commission's opinion in *The Matter of Associated Gas and Electric Company—SEC.*—(Securities Exchange Act of 1934, Release No. 3285A, August 5, 1942, at p. 54):

"[the] position [taken] with respect to intangibles not subject to amortization assumes that as long as the write-off is made because of conservatism before actual realization of the loss, the write-off may be made to capital surplus. This practice would permit a corporation to circumvent charges which should be made against income or earned surplus by recognizing them in advance as a charge against capital surplus and, in our opinion, it is not consistent with the fundamental principle that a distinction should be maintained between capital and income."

Supreme Court Approves SEC's Ratio of Distribution of United Light & Power's Assets

Five to Three Decision Holds That Charter Liquidation Provisions for Preferred and Common Shares Does Not Apply in "Death Sentence" Cases.

In a five-to-three decision, the Supreme Court on January 29 denied the petition of the investment banking firm of Otis & Co. of Cleveland, Ohio, to set aside that part of the SEC's dissolution plan of the United Light and Power Company, by which the preferred stockholders were not given the full liquidating value of their shares, so that the common shareholders could receive a participation in the distribution. Under the SEC's plan, the preferred stockholders were allotted 94.52% and the common stockholders 5.48%. The plan was contested by Otis & Co. on the ground that there were not sufficient assets to meet the liquidation payments, and according to the provisions laid down in the company's charter, the common stock, therefore, had no rights of participation.

According to the majority opinion of the court the Public Utility Holding Company Act provides for simplification and distribution "on the basis of a going concern," and, therefore, the requirement that the distribution of assets be "fair and equitable" to various classes of shareholders, does not need to meet the conditions laid down under the charter restrictions of the corporation.

"The commission applied the correct rule of law as to the rights of the stockholders," the majority opinion asserted. "That is to say, when the Commission proceeds in the simplification of a holding company system, the rights of the stockholders of a solvent company which is ordered by the commission to distribute its assets among its stockholders may be evaluated on the basis of a going business and not as though a liquidation were taking place."

"This right to priority in assets which exists between creditors and stockholders exists also between various classes of stockholders," the court admitted, but added that under the Holding Company Act, Congress "wishes to preserve values to investors, not to destroy them."

"Consequently," the majority opinion stated, "while giving the

commission power to compel the elimination of holding companies deemed uneconomic, it allowed the affected companies to propose plans to the commission to effectuate the objects and the commission to approve such plans when they were considered fair and equitable."

"The manifest solvency of United Power simplified the problem of stockholders' rights with which we are here concerned," the court added. "The creditors are satisfied. No possibility exists that simplification of structure is employed here to evade or nullify creditors' rights in reorganization or to take the place of traditional reorganization."

Chief Justice Harlan F. Stone delivered the minority opinion of the court, in which Justice Owen J. Roberts and Felix Frankfurter joined. The Chief Justice contended that "Calling the preferred stockholders' right of priority a 'windfall' will not serve as an apology, explanation or justification for the Commission's action in appropriating the priority of the preferred in order to give a windfall to the common."

He further pointed out that the term "fair and equitable" has long been interpreted under the well known Boyd case (Northern Pacific vs. Boyd), decided by the Supreme Court some years ago, and has been generally followed in many similar cases.

He maintained that the rule applies to priorities of different classes of stockholders, as well as between creditors and stockholders. "The rule," Justice Stone said, "is that any arrangement or plan enforced without the consent of the parties affected by it, by which the subordinate rights and interests of stockholders are attempted to be secured at the expense of the prior rights of other security holders, is unfair and inequitable and will not be sanctioned."

American Tariff League's 60th Year

The American Tariff League, only organization in the country solely concerned with study of the protective tariff, on Jan. 18 rounded out its 60th year of existence, Secretary Bertrand W. Hall recently announced.

Senator Kenneth S. Wherry of Nebraska, Republican whip in the Senate, who defeated the late delivered the principal address, "What About Our American Economy?" at the League's 60th Anniversary Dinner at the Waldorf-Astoria in New York on Jan. 18. League President Frederick K. Barbour, President of the Linen Thread Co., presided. The advices from the League said:

The League, founded in 1885, is a non-partisan research organization. It studies facts and forces brought into play in international trade and makes its findings public, in accordance with its constitution, "in an educational effort to provide a better understanding of the effect of these forces on the prosperity of American labor, agriculture and industry."

For 36 years the League published "The Economist," an authoritative weekly of standing and prestige in the world of business and economics. In 1927 "The Economist" was succeeded by "The Tariff Review," a monthly designed to fill a more specific function than had its predecessor.

Recently the organization published the results of a three-year comparative study of world tariffs, as of 1937, under the title, "How High Are United States Tariffs?" showing that U. S. tariffs, contrary to the popular understanding, were among the lowest of the world's great trading nations.

Among other recent studies sponsored by the League were: (1) "A Brief Tariff History of the United States," and (2) "Tariff Reductions Under the Reciprocal Trade Agreements Act," showing the 1,226 reductions arranged according to import classification and grouped according to percentage of reduction.

A few of the prominent men associated with the League in the past have been Chauncey Depew, George Westinghouse, John Wanamaker, Leland Stanford, James G. Blaine, Cornelius N. Bliss and A. D. Julliard.

Fraternity For Peace Indispensable

(Continued from first page)

exclusive action. Only collective security can stop the next great war before it starts. Therefore collective security is to our advantage: and we serve America if we can help to make it work.

Uphold Atlantic Charter

But this brings me immediately to my second fundamental. We can not make it work alone. Unshared idealism is not an asset; it is a liability. It takes something more than a "paper league" to keep the peace. An unjust peace will break out of any strait-jacket the wit of man can devise. It ought to. Collective security will be no stronger than the merits of the cause it implements. Therefore it is to our own American self-interest also to keep this objective forever at our masthead—peace with justice! Not because we want to meddle in the problems of other continents, but because there can be no peace without justice! Let me be specific. I am talking about the basic aspirations of the Atlantic Charter. It is not just a nautical collection of fragmentary notes. It is bone and sinew of our flaming forward march. I quote:

"No aggrandizement, territorial or otherwise!"

"No territorial changes which do not accord with the freely expressed wishes of the people concerned!"

"The right of all peoples to choose the form of government under which they will live!"

"Sovereign rights and self-government restored to those who have been forcibly deprived of them!"

There will be differences of opinion in the grand alliance about the meaning of these precious things. I do not pretend to say that we, by dictation, can have it all our own way. But I do presume to say that, by the same token, no other member of the grand alliance by dictation, can have it all his own way either. I do not speak belligerently. I speak with deepest respect for the utterly magnificent contribution which each of our major allies is making to the coming victory. But I speak with equal respect for our own fabulous American contribution. I speak with a profound prayer that the friendly, helpful unity among us shall never fall apart. But I speak also in the belief that candor now will do more for this priceless unity than will disillusionment tomorrow.

Avoid Unilateral Decisions

This brings me to my third fundamental. The President has correctly said: "The nearer we come to vanquishing our enemies the more we become inevitably conscious of differences among the victors." How do these dangerous differences disclose themselves? Usually by unilateral decisions in which one or another among the United Nations makes its own announcement—pronounces its own ultimatum—regarding its own present or post-war plans and purposes. It puts its own interpretation upon its own rights regardless of the fact that these rights, for all of us, all flow from our common effort. I assert that all vital decisions should also flow from the same sort of a common effort.

Let me illustrate what I mean. The army that gets to Berlin first does not win for its nation the right to settle Germany's future just because it got to Berlin first. No nation's army would have reached Berlin at all except for the heroic, common combat of all the other nations'

armies. This is just another way of saying that unity—unity for an ultimate lasting peace—is a constant, day-to-day necessity which must be nourished by all of us through constant, co-ordinated consultation—in war and then in peace—and through a reasonable regard for mutual sensibilities.

Now let's put these three fundamentals together and—in the name of honest, helpful candor—see whether they do not plainly point an immediate plan of action. You will remember the fundamentals. First: The inexpressively vital need to prevent World War III through collective security. Second: The paramount importance of a just peace if it is to be a permanent peace. Third: The hazard to these objectives if each of the United Nations starts going its own way even before we have clinched our total victory. Let's frankly face our American responsibilities in this connection.

It seems to me that the logic of the situation is fairly straight and simple.

Why do our allies take these disunifying steps? What's the reason given for partitioning Poland? For planning satellite conquests? For the Anglo-Soviet agreement of 1942, the Soviet-Czechoslovak agreement of 1943, the Franco-Soviet Treaty of 1944, and similar actions yet to come? What's the reason given for much of the resurgent movements toward alliances, and toward the old "power politics" which has been the world's prime curse? What's the reason?

Allies' Common Danger

It is a perfectly understandable reason. It is a perfectly human reason. It is the frankly expressed fear of reborn Axis aggression in the years to come. Twice within one generation our continental allies have seen the German monster rise and overwhelm them. Twice within one generation they have been driven to the valley of the shadow by military aggression. They do not propose to be exposed again. Unless and until they know that they can depend upon America to join effectively in keeping Germany and Japan demilitarized, they will continue to go their own way. The truth of the matter is that it was the failure to keep Germany demilitarized after World War I which made possible World War II.

In the face of these circumstances, my fellow citizens, I ask you whether our immediate duty—our tremendously great, immediate opportunity—is not clear? America has the same self-interest in keeping Germany and Japan permanently and effectively demilitarized as have her closer victims. America has the keenest sort of self-interest in preventing the threat of reborn Axis aggression from driving the rest of the world into another era of separate alliances because that, too, is the road to another war. In other words, here is one, common danger—one, common objective—in which we have a complete and basic common interest.

Why not face it now? Why not act now? Regardless of any other peace plans, and regardless of whether we agree or disagree among ourselves regarding them, here is one thing that must be done regardless of whether we do anything else at all. Here is one thing that must be done—namely, the permanent demilitarization of Germany and Japan—unless we are blinder than bats in respect to history, following World War I, and unless we are to be guilty of the colossal sin of

dissipating victory after World War II.

Immediate Action Required

It is in response to this irresistible logic of events that I have proposed and continue to propose that America shall sign up now with all her major allies to join in a hard-and-fast treaty, solemnly ratified by the Senate of the United States, which pledges our constant armed co-operation, instantly and peremptorily available through the President of the United States without further reference to the Congress, to keep Germany and Japan out of piracy for keeps. I propose that we say—beyond misunderstanding—that this fiendish thing shall not rise again. I propose that we shall practice what we preach. I propose that no other nation shall have any further chance to use our silence as an alibi for ulterior designs, if such there be. I propose action instead of words. I propose action now—before it is too late. I propose it for the sake of a better world. But I say, "again and again and again," that I propose it for our own American self-interest.

Collateral Advantages

Aside from the incalculable major advantage thus to be gained, there are at least two collateral advantages of scarcely secondary moment. I discuss them briefly.

When we have relieved our allies of any legitimate fear of reborn Axis aggression, we also have relieved them of any legitimate need, each on his own unchecked account, to make unilateral decisions, from time to time, in the name of self-defense. We shall have earned the right to demand that whatever such decisions may have been made in the process of war—and I concede that such decisions may sometimes be unavoidable—we shall have earned the right to demand that all such decisions shall be subject to review and correction in the post-war peace by whatever international organization we set up to perpetuate the solidarity of the United Nations. In other words, and in plain terms, we shall have earned the right to demand peace with justice—the only kind of peace which can survive. A spoilsman's peace will not survive. Therefore, peace itself is the issue at this point. Furthermore, one of the greatest arguments against early action on the Dumbarton Oaks plan for a post-war league will have been substantially removed because, otherwise, it can be persuasively urged that America is asked to sign a warrant to help sustain an unknown future which may be too repugnant to us to deserve or to get any such fidelity from justice-loving America.

This brings me to the second collateral, but dreadfully important, dividend from this program. It brings me to Dumbarton Oaks. If we first deal with our enemies through unequivocal post-war restraints upon them, we have remaining only our friends to consider in charting the organization of our post-war peace league. This immensely simplifies our problem. The only real controversy inside America respecting Dumbarton Oaks is whether the President shall have the power, without reference to Congress, to join our armed forces with those of the peace league to stop renewed military aggression. After we have given him this unquestioned power in respect to our enemies, I think I can prove that the creation of such a power for use against our friends becomes almost an academic question from the standpoint of reality.

Upholds Dumbarton Oaks

Remember, we are now arranging a peace formula with our

friends. We have taken care of our enemies. Remember that we are now talking only about the future use of force against one of our present allies who subsequently becomes a military aggressor to threaten the peace of the world. Obviously it can be only one of our present major allies. It will have to be a present major ally who has broken a solemn pledge to abandon force as an instrumentality of foreign policy. It will have to be a major ally who has successfully defied all of the intervening machinery for the pacific settlement of disputes contemplated by Dumbarton Oaks. This means full investigation and report; then conciliation; then mediation, then arbitration; probably the intervention of international law through the medium of a new world court; perhaps even economic sanctions. The new crisis will not be a blitz. It will not come upon the world like a thief in the night. It will finally reach the last recourse—namely, armed force—only after the other United Nations (which is to say, the conscience of the world) has been put upon serial notice that one of our present major allies has turned brute beast and proposes to assault civilization.

Such a challenge would be of such gravity that no President in his right mind—whether he has the actual power or not—would think for an instant of committing America to such a war without knowing that he had his country and the Congress behind him. On the other hand, no Congress would hesitate for an instant to respond to such a challenge. We declared war on Japan in thirteen minutes and on Germany in five. That ought to be sufficiently expeditious. In other words, I repeat, it means nothing, in a practical sense, whether the President himself is given this final power or not, so far as the functioning of the peace league is concerned. But, in a practical sense, it may mean infinitely much in the decision of the American people as to whether they might reject the whole Dumbarton Oaks adventure, if they are asked to give the President this exclusive power against one of our present allies in the face of a plain constitutional injunction that only Congress can declare war.

Military Action Constitutional

Oh, but, you ask, if "only Congress can declare war," how can you give the President plenary power to use our armed forces to keep the Axis permanently demilitarized? The answer is that for 150 years the Constitution has permitted the President to use this plenary power for "the national defense"—short of war—and it repeatedly has thus been used without question. The permanent demilitarization of the Axis, when once authorized by Congress through the Senate's ratification of a treaty, would not involve a new "declaration of war." It would only be the lengthened shadow of the present war. It would clearly fall within the Presidential authority under the Constitution.

Now you probably ask: "Should the peace league have no force available, except against our erstwhile foes?" My answer is that the peace league certainly should maintain constant staff work in planning the ultimate mobilization of military force; it certainly should have peremptorily available, so far as we are concerned, such military force as is traditionally granted under the Constitution to the President for "national defense"; but, remembering there is to be unlimited force for use against our present

foes, it does not need the final war power which the Constitution of the United States commits exclusively to the Congress of the United States.

Justice Substituted for Force

My further, and fundamental, answer is that the genius of Dumbarton Oaks, in correct perspective, is not the use of military force at all. The genius of Dumbarton Oaks is the exact opposite. It is the substitution of justice for force. It is the substitution of international law for piracy. It is the substitution of peace for war. Its genius lies in the organization of these pacific mechanisms which shall stop future frictions short of the necessity for force. Its genius lies in the mobilization of the vigilant moral and spiritual power of enlightened civilization against the dark and evil forces of recurrent savagery. If this power has been dormant and impotent it is because it has lacked a vigorous world instrument for organized expression. In my deep conviction, Dumbarton Oaks, in proper form, can supply this tremendous instrument.

All of these benedictions become possible just as soon as we have permanently quarantined the Axis lusts. Oh, yes, I have oversimplified the problem. I have no illusions that this tough old world will suddenly quit its sins because a formula is born. I promise no millenium. I am not so naive as to believe that the earth can suddenly rid itself of national rivalries. But I respectfully submit that here lies a way of hope. It, or something like it, will take us out of our foreign policy vacuum. It will unite our tongues and once more make us vocal in behalf of our ideals. It will save us from the dangerous misunderstandings which our continued silence might invite. It will certainly promise a better peace and, therefore, a safer and a longer peace. And it is practical because it plainly conserves self-interest (unless "self interest" involves ulterior and sinister designs) for all concerned in this great fraternity of allied war.

Self Interest Maintained

I do not object, my fellow citizens, to the vigilance of any nation in behalf of its own self-interest. That is what nations are for. I am frank to say that I want our intelligent, American self-interest just as vigorously protected by our spokesmen as British self-interest is always protected by Mr. Churchill and as the self-interests of the Soviets always are protected by Mr. Stalin. But I cannot escape the conviction that an insurance policy against World War III, is basic in the self-interest of every civilized nation in this distraught world, America emphatically included.

Certainly that is an expression of American self-interest. We give up nothing except the inevitable curse of another involvement in another war if it ever comes. We do not sacrifice our independence. We join no world state. We do not desert the Constitution. We leave the Stars and Stripes in all their pride and glory on the domes of Washington. We simply join ourselves, in continued united fraternity with our battle comrades, in a great co-operative adventure for a better earth. We do it for the safe for free men in a free world. We do it in the name of justice. We do not do it if justice is denied. If we can start it now, our allied unity will have new vigor. The end of all our present wars will respond more quickly to our prayers. We shall vindicate our soldier-sons. We shall keep the word of promise to our hopes. We shall save our children's children. We shall have earned the right to beseech God's blessings on our dreams.

Senate Returns Anglo-American Oil Agreement to President Roosevelt

In accordance with the request of President Roosevelt the Senate on Jan. 15 by a voice vote returned to the President the Anglo-American petroleum agreement. The Senate recorded its action as follows:

"ORDERED, That the Secretary of the Senate be directed to return to the President of the United States, in compliance with his request of the 10th instant, the agreement on petroleum between the Government of the United States of America and the Government of United Kingdom of Great Britain and Northern Ireland, signed in Washington Aug. 8, 1944, printed as Executive F. Seventy-eighth Congress, second session."

In his message to the Senate on Jan. 10 the President said:

"To the Senate of the United States:

"Pursuant to the recommendation of the Secretary of State, on August 24, 1944, I transmitted to the Senate for its advice and consent to ratification an agreement on petroleum between the Governments of the United States and of the United Kingdom of Great Britain and Northern Ireland which was signed in Washington on August 8, 1944.

"At that time I considered that the agreement constituted an important step forward in removing possible causes of friction in international trade in petroleum and promoting cooperation among the nations in the development of that trade. I have not changed my opinion in this respect. However, I am informed that fears have been expressed as to the scope and effect of the document, as now worded; some voicing concern lest it authorize acts by the petroleum industry inconsistent with the provisions of existing law, others lest it hold potentialities harmful to the industry. It is my belief that these fears are without foundation. Certainly no such possibilities were intended or designed by the American representatives who negotiated the agreement.

"Since there is general accord

that an understanding on international trade in petroleum between the United States and the United Kingdom is desirable and in the public interest, it would be unfortunate if this should be delayed, if not prevented, through a misunderstanding as to the purpose and scope of a particular document.

"The Secretary of State, accordingly has recommended that I request the Senate to return the agreement in order that consideration may be given, in consultation with the Government of the United Kingdom, to whatever revision appears to be necessary to achieve its objectives and to remove grounds for misunderstanding. I, therefore, request that the agreement be returned for this purpose.

"FRANKLIN D. ROOSEVELT.
"The White House,
"Jan. 10, 1945."

On Dec. 3 it was predicted by Chairman Connolly (Dem., Tex.) that the Anglo-American oil treaty would "never be ratified."

"It is my view that the treaty is unfair to the American oil industry and is not necessary for the general welfare," he declared in a brief statement, according to the Associated Press advices from Washington on that date in which he indicated that he had been opposed to ratification since it was first submitted to the committee.

The signing of the agreement on August 8 by Edward R. Stettinius, Acting Secretary of State, and Lord Beaverbrook of the British Delegation as representatives of the United States and Great Britain was noted in our issue of Aug. 10, page 581.

Maverick Terms Remarks of Crawford Regarding France as Cruel and Hurtful to War Effort

Following his return from a month's tour of the Western Front, Maury Maverick, Chairman of the Smaller War Plants Corporation, urged on Jan. 18 immediate rehabilitation of the military and essential civilian production of France. Reporting his general impressions of his tour at a press conference on that date, Mr. Maverick, according to special advices from Washington to the New York Times described France as a prostrate country, without food, heat and employment, whose financial structure had fallen to pieces. The Times advices continued:

He attributed this situation to the vicious circle created by the lack of transportation because of a want of coal and, in reverse, no coal because of the absence of transportation facilities. In addition to the havoc caused by warfare, conditions have been aggravated by the Germans, who stole, pillaged and destroyed whatever they could in their retreat.

Deploping reports suggesting a contrary picture of France, Mr. Maverick singled out the comment made early this month by Frederick C. Crawford, President of Thompson Products, Inc., and former President of the National Association of Manufacturers, who reported that there was prosperity rather than acute suffering after a recent visit to France. Mr. Crawford's picture was based on misinformation gathered from unreliable sources, Mr. Maverick said.

It was a matter of military necessity to revitalize French industry, not only because a discontented population was a source of potential danger but because factories in France and Belgium would be able to produce war materials for the Allied armies, Mr. Maverick contended. He told of one plant in Belgium that is

producing 113 items for the American Army, and he said he saw numerous rubber, textile and steel plants in France that were closed because of a lack of raw materials.

The British people are "so much better off than the French that there is no comparison," he added, repeating his plea that a way has to be found to supply France, particularly since no great amount of materials was needed, in his opinion.

Mr. Maverick also urged, said the same advices, a threefold increase in the production of military supplies, enactment of draft legislation, more detailed information on the fighting in Europe and greater sacrifice on the home front.

In Associated Press accounts from Washington on Jan. 18 it was indicated that Mr. Maverick is taking sharp issue with Mr. Crawford's statement as to conditions in France described by his comments as "superficial, cruel, obnoxious," and "hurtful to the war effort."

In our issue of Jan. 18, page 286, we reported Jean Ravaud, President of the French Chamber of Commerce of the United States Inc., as also having taken exception to Mr. Crawford's remarks regarding France.

Request by Byrnes for Cancellation of Conventions After Feb. 1—Policy Committee

Col. J. Monroe Johnson, who on Jan. 5 was appointed, with the approval of the President, head of a committee "to receive and pass upon applications for the holding of group meetings after February 1 which are to be attended by more than 50 persons to determine if the need for these meetings is sufficiently in the war interest to warrant the tax on transportation and services," announces that other committee members are Under Secretary of War Robert P. Patterson, Under Secretary of Navy Ralph A. Bard, Chairman of the War Production Board J. A. Krug, and Deputy Chairman of the War Manpower Commission Charles M. Hay.

The cancellation of conventions and group meetings after Feb. 1 requiring the attendance of more than 50 people was requested by James F. Byrnes, Director of War Mobilization and Conversion on Jan. 5, who at the same time announced the appointment of the committee headed by Col. Johnson; the action is designed to curtail non-essential travel; the Office of Defense Transportation in an announcement Jan. 5 said:

Commenting on Director of War Mobilization and Reconversion Byrnes' appeal for a curtailment of nonessential travel and particularly for a cessation of group meetings, such as conventions and trade shows not necessary in the war effort, Col. Johnson said, "the

committee is very anxious that the objectives of Justice Byrnes request—relief of overburdened transportation and housing facilities—be fully and speedily attained." Col. Johnson added, "We have all been concerned not only about the problem of absenteeism of workers engaged in the producing and transporting of desperately needed war materials but also over executive absenteeism caused by attendance at the many conventions, industry meetings, trade shows and conferences."

The Committee will meet promptly Col. Johnson said, to determine its policy and to develop the information required to properly pass upon application for special permits.

Col. Johnson announced that he has appointed Richard H. Clare, on leave from the Pennsylvania Railroad, as his special assistant in this matter and will recommend to the Committee his appointment as secretary.

President Roosevelt Commends Wallace In Message Read at Testimonial Dinner

A message from President Roosevelt commending the contribution "to our times and our future" of Henry A. Wallace, recently Vice-President, and who has been named by the President as Secretary of Commerce, succeeding Jesse H. Jones, was read at a testimonial dinner to Mr. Wallace at the Hotel Commodore in New York on Jan. 29. The dinner was sponsored by the Union for Democratic

lowing to say in addressing the gathering:

"The current situation is not one of personalities, neither is it one of personal prestige. My good friend, Senator Bailey, knows that Senatorial rejection will enhance my personal prestige. So far as I know the Senators who are most vigorously opposing me like and esteem me as a man. As Senator Bailey knows of his own personal knowledge, I have no bitterness in this controversy concerning anyone. But men represent issues and the issues are so important that all of us sooner or later will have to stand up and be counted.

In this audience are representatives of many groups, which fought for Roosevelt in the last campaign.

"The one outstanding domestic issue in the campaign was set forth by Roosevelt last October at Chicago—sixty million jobs and an "Economic Bill of Rights." Those who voted against me in the committee, and I say this in all charity, either believe in policies which will make sixty million jobs impossible, or wish to destroy all possibility of a progressive Democratic party as a national force.

"The RFC is certain to be a headache for anyone. Even with all the Government auditing I have asked for, even with the Congressional investigation I hope for and which the public has long been entitled to, I can well realize that the tremendous ramifications of the RFC are such as to involve a succession of controversial problems as soon as the war is over. Commerce is the staff agency. RFC is in some measure the front-line action agency. While the Senate would relieve me of a great burden by giving me Commerce without RFC, I feel that from the standpoint of the sixty million workers, the profits of business, the income of farmers, the welfare of the country as a whole, and the

From Washington Ahead Of The News

(Continued from first page)
of January 1 of that year, the Government's proprietary interest totaled \$11,671,000,000; the privately owned interest was \$439,000,000. Real estate and other property held for sale was \$1,654,000,000; they had a monthly payroll of \$19,025,787; their number of employees was 109,519. Eight of the agencies had a borrowing power of \$31,185,072,500. Many of the others are unlimited.

There is not anything particular new in the spectacle. The report of the National Citizens Committee and that of the Byrd Committee, are old stuff to informed persons. The important thing is that Senator Byrd and those of his mind have never thought it advisable to try to do anything definite about it until now. The Wallace case, and the interest that has been stirred up about whether he should control the loan agencies, and the reaction they have got, has influenced them to strike now to bring all of these loose and far-flung activities back under the thumbs of Congress. Senator Byrd together with Senator Butler of Nebraska, has introduced a bill to that end.

Aside from this, all of the groups out in the country that have been concerned, and that have been impatient over the lack of anybody's doing anything about it, are being activated. There is developing a "movement" to the end of Congress' getting control over such enterprises as the TVA, the RFC, the Commodity Credit Corporation and sundry others.

It will be a major fight. Just how it will come out is too early to foresee. But it is a fact that the time never seemed to be more propitious to strike. Congress is in the mood. There is not the slightest doubt that had it not been for the George bill, the Senate would have voted Wallace down for any job. The interjection of that bill has given some Senators, who were reluctant to be so brutal, something to hide behind. The bill is meeting with such a reception in the House, that they may have to vote Wallace down after all, and if the proposition is put up to them direct, they will not hesitate to do so.

The Congress is not turning out to be as this writer would have predicted. He was frankly a little annoyed during the recent campaign at people who said they were voting for Roosevelt because of the war, but intended to set up a strong Congress against him. The average member of Congress being what we have known him to be, we thought he would be completely awed by a Fourth Term victory and would revert back to the rubber stamp which he had been until the Republican infusion of 1942.

It is apparent that that is not happening. The Congress is challenging the CIO. A token of this was the House's revoting the Dies committee. That was just a token in the real scheme of things, and for the life of us, we couldn't see where a really worthwhile opportunity was to come for the Congress to really assert itself. The Wallace appointment gave that opportunity, and the Congress seems to be going to town.

protection of the United States Treasury; I could do a better job if the two were combined than if they were separated. Undoubtedly many good men can be found to head the loan agency; but I wish to make it clear to you that if there were serious danger of a "too-little" and "too-late" man being appointed, I would prefer not to be Secretary of Commerce."

